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 March 31, 2021

OR

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

For the transition period from _____ to _____

Commission file number: **001-38242**

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**	**(574) 268-6379**
(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting, 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	☒	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of May 4, 2021, the registrant had 19,659,017 outstanding shares of common stock, $0.00025 par value per share.

OrthoPediatrics Corp.
Form 10-Q
For the Quarterly Period Ended March 31, 2021

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

We cannot assure you that forward-looking statements will prove to be accurate, and you are encouraged not to place undue reliance on forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations expressed or implied by the forward-looking statements. You are urged to carefully review and consider the various disclosures made by us in this quarterly report, in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 11, 2021 and in other reports filed with the SEC that discuss the risks and factors that may affect our business. Other than as required by law, we undertake no obligation to update or revise any forward-looking statements to reflect new information, events or circumstances occurring after the date of this quarterly report.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,426	$ 28,758
Restricted cash	1,369	1,374
Short term investments	55,209	55,141
Accounts receivable - trade, less allowance for doubtful accounts of $361 and $433, respectively	16,551	17,212
Inventories, net	55,266	52,989
Notes receivable	323	337
Prepaid expenses and other current assets	1,884	2,618
Total current assets	152,028	158,429
Property and equipment, net	28,342	27,227
Other assets:		
Amortizable intangible assets, net	50,901	50,284
Goodwill	68,463	70,511
Other intangible assets	13,618	13,961
Total other assets	132,982	134,756
Total assets	$ 313,352	$ 320,412
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 12,009	$ 10,038
Accrued compensation and benefits	4,850	4,540
Accrued legal settlements	5,250	6,342
Current portion of long-term debt with affiliate	132	131
Current portion of acquisition installment payable	12,496	12,233
Other current liabilities	1,886	1,744
Total current liabilities	36,623	35,028
Long-term liabilities:		
Long-term debt with affiliate, net of current portion	1,011	1,044
Acquisition installment payable, net of current portion	13,165	12,784
Contingent consideration	34,860	30,710
Deferred income taxes	5,233	5,755
Other long-term liabilities	315	323
Total long-term liabilities	54,584	50,616
Total liabilities	91,207	85,644
Stockholders' equity:		
Common stock, $0.00025 par value; 50,000,000 shares authorized; 19,659,412 shares and 19,560,291 shares issued as of March 31, 2021 (unaudited) and December 31, 2020, respectively	5	5
Additional paid-in capital	390,000	388,622
Accumulated deficit	(172,145)	(161,766)
Accumulated other comprehensive income	4,285	7,907
Total stockholders' equity	222,145	234,768
Total liabilities and stockholders' equity	$ 313,352	$ 320,412

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 March 31,	
	2021	2020
Net revenue	$ 21,462	$ 16,356
Cost of revenue	5,137	4,143
Gross profit	16,325	12,213
Operating expenses:		
Sales and marketing	8,949	7,564
General and administrative	12,041	7,881
Research and development	1,308	1,265
Total operating expenses	22,298	16,710
Operating loss	(5,973)	(4,497)
Other expenses:		
Interest expense, net	728	379
Fair value adjustment of contingent consideration	4,150	—
Other (income) expense	(160)	69
Total other expenses	4,718	448
Loss before income taxes	$ (10,691)	$ (4,945)
Provision for income taxes (benefit)	(312)	—
Net loss	$ (10,379)	$ (4,945)
Weighted average common stock - basic and diluted	19,200,231	16,423,853
Net loss per share - basic and diluted	$ (0.54)	$ (0.30)

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	2020
Net loss	$ (10,379)	$ (4,945)
Other comprehensive loss:		
Foreign currency translation adjustment	(3,499)	(1,358)
Unrealized loss on short-term investments	(123)	—
Other comprehensive loss	(3,622)	(1,358)
Comprehensive loss	$ (14,001)	$ (6,303)

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31, 2021					
	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Value	Capital	Deficit	Income (Loss)	Equity
Balance at January 1, 2021	19,560,291	$ 5	$ 388,622	$ (161,766)	$ 7,907	$ 234,768
Net loss	—	—	—	(10,379)	—	(10,379)
Other comprehensive income	—	—	—	—	(3,622)	(3,622)
Stock option exercise	2,010	—	62	—	—	62
Restricted stock	97,111	—	1,316	—	—	1,316
Balance at March 31, 2021	19,659,412	$ 5	$ 390,000	$ (172,145)	$ 4,285	$ 222,145

	Three Months Ended March 31, 2020							
	Common Stock		Treasury Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Value	Shares	Value	Capital	Deficit	Income (Loss)	Equity
Balance at January 1, 2020	16,723,128	$ 4	—	—	271,182	(128,822)	(3)	142,361
Net loss	—	—	—	—	—	(4,945)	—	(4,945)
Other comprehensive income	—	—	—	—	—	—	(1,358)	(1,358)
Stock option exercise	22,208	—	—	—	688	—	—	688
Restricted stock	105,710	—	—	—	958	—	—	958
Consideration for Telos acquisition	36,628	—	—	—	1,750	—	—	1,750
Repurchase of common stock	—	—	(4,014)	(187)	—	—	—	(187)
Balance at March 31, 2020	16,887,674	$ 4	(4,014)	$ (187)	$ 274,578	$ (133,767)	$ (1,361)	$ 139,267

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	2020
OPERATING ACTIVITIES		
Net loss	$ (10,379)	$ (4,945)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,539	1,375
Stock-based compensation	1,316	958
Fair value adjustment of contingent consideration	4,150	—
Acquisition installment payable	644	—
Deferred income taxes	(312)	—
Changes in certain current assets and liabilities:		
Accounts receivable - trade	653	760
Inventories	(2,508)	(5,096)
Prepaid expenses and other current assets	708	(56)
Accounts payable - trade	2,058	1,739
Accrued legal settlements	(1,092)	—
Accrued expenses and other liabilities	446	(1,694)
Other	(138)	3
Net cash used in operating activities	(1,915)	(6,956)
INVESTING ACTIVITIES		
Acquisition of Telos, net of cash acquired	—	(1,670)
Purchases of licenses	(2,858)	—
Purchases of property and equipment	(2,749)	(3,953)
Net cash used in investing activities	(5,607)	(5,623)
FINANCING ACTIVITIES		
Payments on debt with affiliate	—	(5,000)
Repurchases of common shares	—	(187)
Proceeds from exercise of stock options	62	688
Payments on mortgage notes	(32)	(31)
Net cash provided by financing activities	30	(4,530)
Effect of exchange rate changes on cash	155	23
NET DECREASE IN CASH	(7,337)	(17,086)
Cash and restricted cash, beginning of year	$ 30,132	$ 72,027
Cash and restricted cash, end of period	$ 22,795	$ 54,941
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 15	$ 379
Transfer of instruments from property and equipment to inventory	$ 57	$ 182
Issuance of common shares to acquire Telos	$ —	$ 1,750

See notes to condensed consolidated financial statements.

ORTHOPEDIATRICS CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars In Thousands, Except Share and Per Share data)

NOTE 1 – BUSINESS

OrthoPediatrics Corp., a Delaware corporation, is a medical device company committed to designing, developing and marketing anatomically appropriate implants 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, Pediatric Nailing Platform | Femur, Orthex, QuickPack™ and ApiFix® Mid-C System, to various hospitals and medical facilities throughout the United States and various international markets. We currently use a contract manufacturing model for the manufacturing of implants and related surgical instrumentation.

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. We began selling direct to Canada in September 2018, Belgium and the Netherlands in January 2019, Italy in March 2020 and Germany, Switzerland and Austria in January 2021. Additionally, in March 2019, we established an operating company in the Netherlands in order to enhance our operations in Europe.

On June 4, 2019, we purchased all the issued and outstanding shares of stock of Vilex in Tennessee, Inc. ("Vilex") and all the issued and outstanding units of membership interests in Orthex, LLC ("Orthex") for $60,000 in total consideration. Vilex and Orthex are primarily manufacturers of foot and ankle surgical implants, including cannulated screws, fusion devices, surgical staples and bone plates, as well as Orthex Hexapod technology which is used to treat pediatrics congenital deformities and limb length discrepancies (refer to Note 3).

On December 31, 2019, we divested substantially all of the assets relating to Vilex's adult product offerings to a wholly-owned subsidiary of Squadron Capital LLC ("Squadron") in exchange for a $25,000 reduction in a Term Note owed to Squadron in connection with the initial acquisition. As part of the sale, we also executed an exclusive license arrangement with Squadron providing for perpetual access to certain intellectual property and a mutual distribution agreement.

On March 9, 2020, we purchased all the issued and outstanding membership interest of Telos Partners, LLC ("Telos") for $3,300 in total consideration. Telos is a boutique regulatory consulting firm formed in Colorado (refer to Note 3).

On April 1, 2020, we purchased all the issued and outstanding membership interest of ApiFix, Ltd. ("ApiFix") for (a) $2,000 in cash, and (b) 934,783 shares of the Company's common stock, $0.00025 par value per share, representing approximately $35,000 (based on a closing share price of $37.63 on April 1, 2020. ApiFix, a corporation organized under the laws of Israel, has developed a minimally invasive deformity correction system for patients with Adolescent Idiopathic Scoliosis ("ApiFix System"). In addition, we have also agreed to pay as part of the purchase price the following anniversary payments, subject to certain limitations and adjustments: (i) approximately $13,000 on the second anniversary of the closing date, provided that such payment will be paid earlier if 150 clinical procedures using the ApiFix System are completed in the United States before such anniversary date, (ii) $8,000 on the third anniversary of the closing date; and (iii) $9,000 on the fourth anniversary of the closing date. In addition, to the extent that the product of our revenues from the ApiFix System for the twelve months ended June 30, 2024 multiplied by 2.25 exceeds the anniversary payments actually made for the third and fourth

years, we have agreed to pay the selling shareholders a system sales payment in the amount of such excess. The anniversary payments and system sales payment may each be made in cash or cash and common stock (refer to Note 3).

On June 10, 2020, we purchased certain intellectual property assets from Band-Lok, LLC, a North Carolina limited liability company ("Band-Lok"), related to its Tether Clamp and Implantation System ("Tether Clamp System") for approximately $3,400 in total consideration. We use the Tether Clamp System in connection with our Bandloc 5.5/6.0 System. We were previously the sole licensee of the purchased assets under a license agreement with Band-Lok.

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

A novel strain of the coronavirus disease ("COVID-19") was first identified in Wuhan, China in December 2019, and the related outbreak was subsequently declared a pandemic by the World Health Organization and a national emergency by the President of the United States. As a result of the pandemic, we have experienced significant business disruption. For example, in preparation for COVID-19-related hospitalizations, various governments, governmental agencies and hospital administrators have instructed hospitals to postpone some elective procedures in both our domestic and international markets to various degrees. As a majority of our products are utilized in elective surgeries or procedures, the deferrals of such surgeries and procedures have had, and may continue to have, a significant negative impact on our business and results of operations. Despite the impact COVID-19 has had on our business, we continue to invest in research and development, invest in our people, and take steps to position ourselves for long-term success. The extent to which COVID-19 may continue to negatively impact the Company's consolidated financial position, results of operations or cash flows is uncertain and will be closely monitored.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of OrthoPediatrics Corp. and its wholly-owned subsidiaries, OrthoPediatrics US Distribution Corp., OrthoPediatrics EU Limited, OrthoPediatrics AUS PTY LTD, OrthoPediatrics NZ Limited, OP EU B.V., OP Netherlands B.V., Orthex, LLC, Telos Partners, LLC and ApiFix, Ltd. (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 March 31, 2021 and December 31, 2020, the condensed consolidated statements of operations for the three months ended March 31, 2021 and 2020, the condensed consolidated statements of comprehensive loss for the three months ended March 31, 2021 and 2020, the condensed consolidated statements of stockholders’ equity for the three months ended March 31, 2021 and 2020 and the condensed consolidated statements of cash flows for the three months ended March 31, 2021 and 2020 are unaudited and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2020 and related notes thereto contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 11, 2021. 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, 2020 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 months ended March 31, 2021 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 $172,145 and $161,766 as of March 31, 2021 and December 31, 2020, respectively. Management continues to monitor cash flows and liquidity on a regular basis. We believe that our cash balance, including short term investments, at March 31, 2021 and expected cash flows from operations for the next twelve months subsequent to the issuance of the accompanying condensed consolidated financial statements, are sufficient to enable us to maintain current and essential planned operations for more than the next twelve months.

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. The impact of the coronavirus disease ("COVID-19") has significantly increased economic and demand 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 stocking distributors in 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. We began selling direct to Canada in September 2018, Belgium and the Netherlands in January 2019, Italy in March 2020 and Germany, Switzerland and Austria in January 2021. Additionally, in March 2019, we established an operating company in the Netherlands in order to enhance our operations in Europe. The financial statements of our foreign subsidiaries are accounted for in local functional currencies including 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. Local functional currencies include primarily the Pound Sterling, the Euro, Australian Dollar, Canadian Dollar and Israeli Shekel. Foreign currency translation adjustments have been recorded as a separate component of the condensed consolidated statements of comprehensive loss.

Revenue from Contracts with Customers

In accordance with ASC 606, "*Revenue From Contracts With Customers* (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 customers, 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 products are shipped and the title and risk of loss passes to the customer. Pricing for each customer is dictated by a unique pricing agreement, which does not generally include rebates or discounts.

Revenue Recognition – International

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

The products are generally consigned to our independent sales agencies, and revenue is recognized when the products are used by or shipped to the hospital for surgeries on a case by case basis. On rare occasions, hospitals purchase products for their own inventory, and revenue is recognized when title passes upon shipment. Pricing for each customer is dictated by a unique pricing agreement.

Cash, Cash Equivalents and Short Term Investments

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

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

Restricted Cash

In conjunction with the sale of a business acquired in 2019, $1,250 was placed into a separate escrow account. This cash is reported as restricted cash on the March 31, 2021 and 2020 consolidated balance sheet. These funds will remain restricted until August 31, 2021 at which time, they will be released to the Company subject to no claims related to the purchase. The Company also maintains restricted cash of 100 Euro at its Netherlands entity for potential Italian tenders.

Accounts Receivable and Allowance for Doubtful Accounts

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

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

Fair Value of Financial Instruments

The accounting standards related to fair value measurements define fair value and provide a consistent framework for measuring fair value under the authoritative literature. Valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions. This guidance only applies when other standards require or permit the fair value measurement of assets and liabilities. The guidance does not expand the use of fair value measurements. A fair value hierarchy was established, which prioritizes the inputs used in measuring fair value into three broad levels.

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

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

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

The Company's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, acquisition installment payables, contingent consideration and long-term debt. The carrying amounts of accounts receivable, accounts payable, acquisition installment payables and long-term debt approximate the fair value due to the short-term nature or market rates of these instruments. The company bases the fair value of short-term investments on quoted market prices for identical or comparable assets. Contingent consideration represents the system sales payment the Company is obligated to make. The fair value of the contingent consideration payment is considered a level 3 fair value measurement and was determined with the assistance of an independent valuation specialist at the original issuance date and as of the balance sheet date. See Note 5 for further discussion of financial instruments that carried a fair value on a recurring and nonrecurring basis.

Inventories, net

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

We evaluate the carrying value of our inventories in relation to the estimated forecast of product demand, which takes into consideration the life cycle of the product. A significant decrease in demand could result

in an increase in the amount of excess inventory on hand, which could lead to additional charges for excess and obsolete inventory.

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

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

Property and Equipment, net

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

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

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

Depreciable lives are generally as follows:

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

Amortizable Intangible Assets, net

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

Amortizable intangible assets are assessed for impairment 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.

Goodwill and Other Intangible Assets

Our goodwill represents the excess of the cost over the fair value of net assets acquired. The determination of the value of goodwill and intangible assets arising from acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is assessed for impairment using fair value measurement techniques on an annual basis or more frequently if facts and circumstances warrant such a review. The goodwill is considered to be impaired if we determine that the carrying value of the reporting unit exceeds its respective fair value.

We have indefinite lived tradename assets that are reviewed for impairment 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.

Acquisition Payable and Contingent Consideration

Upon the completion of an acquisition, the Company may record an acquisition installment payable, contingent consideration or both. Both are recorded at their fair values as determined by management with the assistance of an independent valuation specialist at the original issuance date and are adjusted on a recurring basis. Accretion of interest expense attributable to the acquisition installment payable are recorded as a component of interest expense, net. Changes in the fair value of the contingent consideration are included in fair value adjustments of contingent consideration. The amount of expense recorded in interest expense, net and fair value adjustments of contingent consideration for the three months ended March 31, 2021 were $644 and $4,150, respectively. We recorded no interest expense or fair value adjustments for the three months ended March 31, 2020.

Cost of Revenue

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

Sales and Marketing Expenses

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

Advertising Costs

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

Research and Development Costs

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

Stock-Based Compensation

Prior to our Initial Public Offering ("IPO") in October 2017, 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, which is typically three years. The restricted stock that had been granted under the 2007 Plan had restriction periods that generally lasted until the earlier of six years from the date of grant, or an IPO or change in control, as defined in the 2007 Plan. All restricted stock granted prior to May 2014 vested upon our IPO and the remaining grants under the 2007 Plan vested six months after the IPO. We recognize the reversal of stock compensation expense when a restricted stock forfeiture occurs as opposed to estimating future forfeitures.

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

Litigation and Contingencies

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

Comprehensive Income (Loss)

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

Income Taxes

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

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

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

In April 2017, the SEC adopted new rules that included an inflation-adjusted threshold in the definition of an emerging growth company. Under the new inflation-adjusted threshold, we would cease to be an emerging growth company on the last day of the fiscal year in which our annual gross revenues exceed $1.07 billion. This is an increase of $70 million from the previous $1 billion threshold.

We also qualify as a "smaller reporting company," as such term is defined in Rule 12b-2 under the Exchange Act. To the extent that we continue to qualify as a smaller reporting company, after we cease to qualify as an emerging growth company, certain of the exemptions available to us as an emerging growth company may continue to be available to us as a smaller reporting company.

Recent Accounting Pronouncements

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

NOTE 3 – BUSINESS COMBINATION

ApiFix

On April 1, 2020, the Company purchased all the issued and outstanding membership interest of ApiFix for $2,000 in cash, including $344 of cash acquired, 934,783 shares of the Company's common stock, $0.00025 par value per share, representing approximately $35,176 (based on a closing share price of $37.63 on April 1, 2020), approximately $30,000 in anniversary payments, and approximately $41,741 in a system sales payment. The total consideration transferred of $87,379, as calculated after discounting future payments to present value, is preliminary and subject to certain limitations and adjustments. ApiFix, a corporation organized under the laws of Israel, has developed a minimally invasive deformity correction system for patients with Adolescent Idiopathic Scoliosis ("ApiFix System"). The following table reconciles the total consideration transferred after discounting the future payments:

	Consideration	Present Value
Cash consideration	$ 2,000	$ 2,000
Payment of ApiFix transaction related costs	67	67
Issuance of common stock	35,176	35,176
Anniversary Payments	30,000	22,620
System sales payment	41,741	27,190
Total consideration transferred	$ 108,984	$ 87,053

The purchase price allocation set forth herein is preliminary.

The following table summarizes the total consideration paid for ApiFix and allocation of purchase price to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Description	Amount
Preliminary fair value of estimated total acquisition consideration	$ 87,379
Assets	
Cash	344
Accounts receivable-trade	245
Inventories	685
Prepaid expenses and other current assets	77
Property and equipment	153
Intangible assets	32,150
Other intangible assets	8,640
Operating lease right-of-use asset	104
Total assets	42,398
Liabilities	
Accounts payable and accrued liabilities	226
Operating lease liabilities	106
Other current liabilities	270
Deferred income taxes	6,487
Total liabilities	7,089
Less: total net assets	35,309
Goodwill	$ 52,070

The fair value of identifiable intangible assets were based on valuations using a combination of the income and cost approach. The estimated fair value and useful life of identifiable intangible assets are as follows:

	Amount	Remaining Economic Useful Life
Trademarks / Names	$ 8,640	Indefinite
Patents	31,720	15 years
Customer Relationships	230	10 years
Non-competition Agreements	200	4 years
	$ 40,790	

The Company is obligated to make anniversary payments of: (i) approximately $13,000 on the second anniversary of the closing date, provided that such payment will be paid earlier if 150 clinical procedures using the ApiFix System are completed in the United States before such anniversary date, (ii) $8,000 on the third anniversary of the closing date; and (iii) $9,000 on the fourth anniversary of the closing date, subject to adjustments. The Company anticipates making the second anniversary payment of $13,000 during the first half of 2021. In addition, to the extent that the product of our revenues from the ApiFix System for the twelve months ended June 30, 2024 multiplied by 2.25 exceeds the anniversary payments actually made for the third and fourth years, we have agreed to pay the selling shareholders a system sales payment in the amount of such excess. The anniversary payments and system sales payment may each be made in cash or cash and common stock, subject to certain limitations; provided that the Company makes the determination with respect to anniversary payments and a representative of the former ApiFix shareholders may make the determination with respect to the system sales payment, if any.

The fair value of the contingent consideration payments is considered a Level 3 investment and were determined by an independent valuation specialist at the original issuance date using an option pricing

model and a Monte Carlo simulation based on forecast annual revenue, expected volatility and an implied probability of achieving revenue forecasts. The fair value of the payment will continue to be adjusted as additional information becomes available regarding the progress toward achievement of the revenue forecast.

Presented below is a summary of the present value of the anniversary payments and system sales payment related to the ApiFix acquisition:

	April 1, 2020	March 31, 2021
Anniversary Payments:		
Second Year Payment	$ 10,980	$ 12,496
Third Year Payment	5,780	6,520
Fourth Year Payment	5,860	6,645
Total acquisition installment payable	22,620	25,661
Less: current portion of acquisition installment payable	10,980	12,496
Acquisition installment payable, net of current portion	11,640	13,165
System sales payment	27,190	34,860
ApiFix future consideration, net of current portion	$ 38,830	$ 48,025

Pre-acquisition revenues and earnings for ApiFix were not material to the condensed consolidated operations.

Telos

On March 9, 2020, the Company purchased the issued and outstanding membership interest of Telos for $1,750 in cash, including $81 of cash acquired, and 36,628 shares of common stock, $0.00025 par value per share, of the Company. The shares of common stock were valued at $42.81 per share, the Company's closing share price on March 9, 2020. The Company incurred $25 of acquisition-related costs, that are included in general and administrative expenses on the consolidated statements of operations. The purchase price allocation set forth herein is final.

The following table summarizes the total consideration paid for Telos and allocation of purchase price to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Description	Amount
Fair fair value of total acquisition consideration	$ 3,318
Assets	
Cash	81
Accounts receivable-trade	215
Prepaid expenses and other current assets	38
Property and equipment	10
Intangible assets	950
Other intangible assets	$ 210
Total assets	1,504
Liabilities	
Accounts payable and accrued liabilities	60
Total liabilities	60
Less: total net assets	1,444
Goodwill	$ 1,874

The fair value of identifiable intangible assets were based on valuations using a combination of the income and cost approach. The fair value and useful life of identifiable intangible assets are as follows:

	Amount	Remaining Economic Useful Life
Trademarks / Names	$ 210	Indefinite
Customer Relationships	910	10 years
Non-competition Agreements	40	5 years
	$ 1,160	

NOTE 4 - GOODWILL AND INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill for the three months ended March 31, 2021 were as follows:

	Total
Goodwill at January 1, 2021	$ 70,511
Foreign currency translation impact	(2,048)
Goodwill at March 31, 2021	$ 68,463

Intangible Assets

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

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Patents	14.5 years	$ 42,103	$ (3,282)	$ 38,821
Intellectual Property	10.1 years	8,968	(907)	8,061
License Agreements	6.1 years	5,623	(1,604)	4,019
Total amortizable assets		$ 56,694	$ (5,793)	$ 50,901

As of December 31, 2020, the balances of amortizable intangible assets were as follows:

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Patents	14.7 years	$ 43,363	$ (2,650)	$ 40,713
Intellectual Property	10.3 years	8,990	(744)	8,246
License Agreements	2.7 years	2,765	(1,440)	1,325
Total amortizable assets		$ 55,118	$ (4,834)	$ 50,284

On June 10, 2020, we purchased certain intellectual property assets from Band-Lok, LLC, a North Carolina limited liability company ("Band-Lok"), related to its Tether Clamp and Implantation System ("Tether Clamp System") for $3,394 in total consideration. We use the Tether Clamp System in connection with our Bandloc 5.5/6.0 System. We were previously the sole licensee of the purchased assets under a license agreement with Band-Lok.

On March 19, 2021, we recorded a license agreement in the amount of $2,858 in settlement of the Barry legal matter. Additional information regarding this matter can be found in Note 13.

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

Trademarks are non-amortizing intangible assets which were $13,618 and $13,961 as of March 31, 2021 and December 31, 2020, respectively. Concurrently with our acquisition of each company, we acquired the trademark of Telos on March 9, 2020 valued at $210 and the trademark of ApiFix on April 1, 2020 valued at $8,640. Trademarks are recorded in Other Intangible assets on the Condensed Consolidated Balance Sheets.

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The following table summarize the assets and liabilities measured at fair value on a recurring basis as of March 31, 2021 and December 31, 2020.

	March 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash Equivalents	$ 11,005	$ —	$ —	$ 11,005
Short term investments				
Exchange Trade Mutual Funds	$ 35,257	$ —	$ —	$ 35,257
Corporate Bonds	$ 10,318	$ —	$ —	$ 10,318
Treasury Bonds	$ 5,265	$ —	$ —	$ 5,265
Other	$ 4,369	$ —	$ —	4,369
Financial Liabilities				
Contingent Consideration	$ —	$ —	$ 34,860	$ 34,860

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash Equivalents	$ 15,002	$ —	$ —	$ 15,002
Short term investments				
Exchange Trade Mutual Funds	$ 35,208	$ —	$ —	$ 35,208
Corporate Bonds	$ 9,616	$ —	$ —	$ 9,616
Treasury Bonds	$ 6,520	$ —	$ —	$ 6,520
Other	$ 3,797	$ —	$ —	$ 3,797
Financial Liabilities				
Contingent Consideration	$ —	$ —	$ 30,710	$ 30,710

The Company's level 1 assets consist of cash equivalents which are generally comprised of short-term, liquid investments with original maturity of three months or less at inception and other short term investments which are comprised of exchange traded mutual funds and marketable securities with a maturity date greater than 3 months.

The Company's Level 3 instruments consist of contingent consideration. The fair value of contingent consideration liabilities assumed in business combinations is recorded as part of the purchase price consideration of the acquisition and is determined using a discounted cash flow model or probability simulation model. The significant inputs of such models are not always observable in the market, such as certain financial metric growth rates, volatility rates, projections associated with the applicable milestone, the interest rate, and the related probabilities and payment structure in the contingent consideration arrangement. The adjustment in the fair value of the contingent consideration payments of $4,150 was recognized as an expense for the three month period ended March 31, 2021, in other expenses on the condensed consolidated statements of operations. An additional $644 was recognized as interest expense for the three month period ended March 31, 2021, on the condensed consolidated statements of operations for the accretion of the acquisition installment payable.

The following table summarizes the change in fair value of Level 3 instruments in 2021:

	Total
Balance at January 1, 2021	$ 30,710
Change in fair value of contingent consideration	4,150
Balance at March 31, 2021	$ 34,860

The recurring Level 3 fair value measurements of contingent consideration liabilities associated with commercial sales milestones include the following significant unobservable inputs as of March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
Valuation techniques	Discounted cash flow, Monte Carlo	
Present value discount rate[(1)]	25.3 %	25.8 %
Volatility factor	52.6 %	51.8 %
Expected years	3.1 years	3.5 years

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

The estimated fair value reflects assumptions made by management as of March 31, 2021; however, the actual amount ultimately paid could be higher or lower than the fair value of the remaining contingent consideration.

NOTE 6 - DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following:

	March 31, 2021	December 31, 2020
Mortgage payable to affiliate	1,143	1,175
Less: current maturities	132	131
Long-term debt with affiliate, net of current maturities	$ 1,011	$ 1,044

On December 31, 2017, we entered into a Fourth Amended and Restated Loan and Security Agreement, or the Loan Agreement, with Squadron Capital LLC, or Squadron. Pursuant to the Loan Agreement, which has been amended by a First Amendment dated as of June 4, 2019 and a Second Amendment date as of August 4, 2020 (as so amended, the "Second Amendment Loan Agreement"), Squadron is providing the Company a revolving credit facility in the amount of $25,000. Borrowings under the revolving credit facility are to be made under a First Amended and Restated Revolving Note, dated August 4, 2020 (the "Amended Revolving Note"), payable, jointly and severally, by the Company and each of its subsidiaries party thereto. The Amended Revolving Note will mature at the earlier of: (i) the date on which any person or persons acquire (x) capital stock of the Company possessing the voting power to elect a majority of the Company's Board of Directors (whether by merger, consolidation, reorganization, combination, sale or transfer), or (y) all or substantially all of the Company's assets, determined on a consolidated basis; and (ii) January 1, 2024. The Second Amended Loan Agreement provides for interest only payments, which are payable monthly, with an interest rate equal to the greater of (a) three month LIBOR plus 8.61%, and (b) 10.00%.

On January 4, 2020, the Company repaid Squadron $5,000 outstanding under the revolving credit facility in effect at that time and, on July 15, 2020 the Company repaid the $20,000 Term Note A outstanding under the Loan Agreement, together with all unpaid interest and other related amounts payable. The Company does not currently have any borrowings outstanding under the Second Amended Loan Agreement.

The Company has agreed to pay Squadron an unused commitment fee in an amount equal to the per annum rate of 0.50% (computed on the basis of a year of 360 days and the actual number of days elapsed) times the daily unused portion of the revolving credit commitment. The unused commitment fee is payable quarterly in arrears and is recorded in interest, net. For the quarter ended March 31, 2021 the unused commitment fee paid to Squadron was $52.

Borrowings under the Second Amended Loan Agreement are secured by substantially all of the Company's assets and are unconditionally guaranteed by each of its subsidiaries with the exception of Vilex. There are no traditional financial covenants associated with the Second Amended 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 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. As of December 31, 2020, the mortgage balance was $1,175 of which current principal due of $131 was included in the current portion of long-term debt. At March 31, 2021 the mortgage balance was $1,143 of which current principal of $132 was included in the current portion of long-term debt.

Interest expense relating to notes payable to Squadron and mortgage note payable with Tawani was $15 and $551 for the three months ended March 31, 2021 and 2020, respectively.

NOTE 7 - INCOME TAXES

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

For the three months ended March 31, 2021, the income tax benefit was $312 compared to $0 for the three months ended March 31, 2020. Our effective income tax rate was 2.9% and 0% for the three months ended March 31, 2021 and 2020, respectively. Our effective tax rate increased compared to the prior year primarily due to the acquisition of ApiFix in 2020 and the deferred tax liability recorded in the purchase accounting. The deferred tax liability was set up as a result of the amortizing intangible assets recorded in the purchase accounting which generate nondeductible book amortization.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act"). The enactment of the CARES Act did not result in any material adjustments to our income tax provision for the three or three months ended March 31, 2021.

On December 27, 2020 the Consolidated Appropriations Act, 2021 (“CAA”) was signed into law. The CAA included the COVID-related Tax Relief Act of 2020 (“COVID TRA”), which expanded, extended, and clarified selected CARES Act provisions, specifically on Paycheck Protection Program (PPP) loan and Employee Retention Tax Credit, 100% deductibility of business meals purchased from restaurants as well as other tax extenders. The Consolidated Appropriations Act did not have a material impact on the Company’s income tax provision.

The deferred tax assets were fully offset by a valuation allowance at March 31, 2021 and December 31, 2020, with the exception of certain deferred tax liabilities recognized in a foreign jurisdiction as a result of fair value adjustments recorded upon the acquisition of ApiFix. The company has recorded a tax benefit during the period ended March 31, 2021 for losses generated in the foreign jurisdiction. As of December 31, 2020, we had available federal, state and foreign tax loss carryforwards of $98,918, $68,901 and $16,905, respectively. We had available federal tax credits of $176. Net operating losses generated prior to December 31, 2017 will begin to expire in 2028. Federal net operating losses generated after January 1, 2018 will have an indefinite carryforward period. An ownership change under Section 382 of the Internal Revenue Code was deemed to occur on May 30, 2014. Given the limitation calculation, we anticipate approximately $16,200 in losses generated prior to the ownership change date will be subject to potential limitation. The estimated annual limitation is $1,062. A second ownership change under Section 382 was deemed to occur on December 11, 2018. The estimated annual limitation is $9,736, which is increased by $22,430 annually over the first five years as a result of an unrealized built in gain. NOLs sustained prior to May 30, 2014 will still be constrained by the lower limitation.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended March 31, 2021. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

NOTE 8 - STOCKHOLDERS' EQUITY

Stock Options

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

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

	Options	Weighted-Average Exercise Price	Contractual Terms (in Years)
Outstanding at January 1, 2021	12,802	$ 30.97	1.6
Exercised	(2,010)	30.97	
Outstanding at March 31, 2021	10,792	$ 30.97	1.6

Options generally include a time-based vesting schedule permitting the options to vest ratably over three years. At March 31, 2021 and December 31, 2020, all options were fully vested.

There was no stock-based compensation expense on stock options for the three months ended March 31, 2021 and 2020, 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, 2021	436,730	1.1
Granted	97,537	
Forfeited	(426)	
Vested	(144,743)	
Outstanding at March 31, 2021	389,098	1.7
Restricted stock exercisable at March 31, 2021	—	

At March 31, 2021, there was $11,417 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 1.7 years or earlier upon an elimination of the restriction period as a result of a change in control event.

Stock-based compensation expense on restricted stock amounted to $1,316 and $958 for the three months ended March 31, 2021 and 2020, respectively. The increase in the stock compensation expense for the three months ended March 31, 2021 was due primarily to a third year of restricted stock grants in a three year vesting cycle.

NOTE 9 – NET LOSS PER SHARE

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

	Three Months Ended March 31,	
	2021	2020
Net loss	$ (10,379)	$ (4,945)
Weighted average number of shares - basic and diluted	19,200,231	16,423,853
Net loss per share - basic and diluted	$ (0.54)	$ (0.30)

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.

Because we have incurred a net loss for all periods presented, diluted net loss per common share is the same as basic net loss per common share. 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:

	Three Months Ended March 31,	
	2021	2020
Restricted stock	389,098	423,712
Stock options	10,792	40,420
Warrants	—	404
Total shares	399,890	464,536

NOTE 10 – BUSINESS SEGMENT

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

Product sales attributed to a country or region includes product sales to hospitals, physicians and distributors and is based on the final destination where the products are sold. No customers accounted for more than 10% of total product sales for the three months ended March 31, 2021 or 2020. No customer accounted for more than 10% of consolidated accounts receivable as of March 31, 2021 and December 31, 2020.

Product sales by source were as follows:

	Three Months Ended March 31,	
Product sales by geographic location:	2021	2020
U.S.	$ 16,839	$ 13,384
International	4,623	2,972
Total	$ 21,462	$ 16,356

	Three Months Ended March 31,	
Product sales by category:	2021	2020
Trauma and deformity	$ 14,552	$ 12,210
Scoliosis	5,951	3,711
Sports medicine/other	959	435
Total	$ 21,462	$ 16,356

No individual country with sales originating outside of the United States accounted for more than 10% of consolidated revenue for the three months ended March 31, 2021 and 2020.

NOTE 11 - RELATED PARTY TRANSACTIONS

In addition to the debt and credit agreements and mortgage with Squadron and its affiliate (see Note 6), we currently use Structure Medical, LLC (“Structure Medical”) as one of our suppliers. Structure Medical is affiliated with Squadron and a supplier with which we maintain certain long-term agreements. We made aggregate payments to Structure Medical for inventory purchases of $72 and $1,201 for the three months ended March 31, 2021 and 2020, respectively.

On December 31, 2019, the Company divested Vilex for $25,000 to an affiliate of Squadron. In conjunction with the divestiture, the Company also entered into an exclusive perpetual license agreement to permit the purchasers of Vilex the ability to access intellectual property and sell products using the external fixation technology of Orthex, LLC to non-pediatric accounts. We had sales and payments related to inventory purchases to Squadron's affiliate, now known as Vilex, LLC, of $87 and $189, respectively, for the three months ended March 31, 2021. We had sales and payments related to inventory purchases to Vilex, LLC of $386 and $640, respectively, for the three months ended March 31, 2020.

NOTE 12 - 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. We have elected to match our employees' 401(k) contributions up to 4% of employees' salary.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Leases

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

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

As of March 31, 2021, the Company has recorded a lease liability of $315 and corresponding right-of-use-asset of $318 on its condensed consolidated balance sheet.

Legal Proceedings

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

K2M - Alleged Patent Infringement

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 June 28, 2018, the United States Patent and Trademark Office's Patent Trial and Appeal Board ("PTAB") instituted limited review concerning whether certain third parties had described the invention of certain of K2M's patent claims before allegedly invented by K2M. On July 10, 2018, the Court stayed the litigation pending the outcome of PTAB's review. On June 4, 2019, PTAB completed its review, finding, among other things, insufficient evidence of such description by the third parties. In early October 2019, the Court orally lifted the stay in federal district court. Thereafter, on November 19, 2019, K2M amended its complaint to add two (2) additional issued patents, to add claims of patent infringement regarding U.S. Patent Nos. 10,285,735 and 10,292,736 (both issued in May 2019). Like before, these newly issued patents relate to certain instruments used in our RESPONSE spine systems. Additionally, we have denied these most recent claims and responded with counterclaims seeking declaratory relief that the subject patents are both invalid and not infringed. Moreover, on November 20, 2019, the Court issued its Scheduling Order, which in part, set a trial date for April 12, 2021. Subsequently, the parties attended a second court-ordered mediation on February 25, 2020, which did not resolve the dispute.

Throughout 2021, we have continued settlement negotiations regarding this matter and anticipate that it will be settled in the near term. Because the Company considers a potential settlement to be probable, it previously accrued for the related expense during the fourth quarter of 2020. No material modifications were made to the accrual during the quarter ended March 31, 2021. While the Company considers it probable, no assurance can be given that a final settlement will be reached and, were negotiations to cease, we would vigorously defend the claims asserted against us.

Barry - Alleged Patent Infringement

On December 30, 2020, Dr. Mark Barry filed suit against us in the United States District Court for the District of Delaware (Barry v. OrthoPediatrics Corp. et al., Case No. 1:20-cv-01786) seeking unspecified damages for alleged infringement of U.S. Patent Nos. 7,670,358; 8,361,121; 9,339,301; 9,668,787; and 9,668,788, which relate to systems and methods concerning derotation of spinal bodies to correct spinal deformities. On March 19, 2021, the parties reached a final settlement, which included the Company entering into a license agreement with Dr. Barry. The license agreement was recorded by the Company in the amount of $2,858, which will be amortized over a period of up to 8 years based upon the number of cases utilizing the related spinal deformity system in a given period. The balance of the amount otherwise paid to Dr. Barry had been previously accrued for during the fourth quarter of 2020 in anticipation of this final settlement.

Accrued Legal Settlement Costs

As of March 31, 2021, we have an outstanding accrued legal settlement balance of $5,250 related to the potential outcome of outstanding legal matters.

Royalties

As of March 31, 2021, we are contracted to pay royalties to individuals and entities that provide research and development services, which range from 0.5% to 20% of sales.

We have products in development that have milestone payments and royalty commitments. In any development project, there are significant variables that will affect the amount and timing of these payments and as of March 31, 2021, 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 global medical device company focused exclusively on providing a comprehensive trauma and deformity correction, scoliosis and sports medicine product offering to the pediatric orthopedic market in order to improve the lives of children with orthopedic conditions. We design, develop and commercialize innovative orthopedic implants and instruments to meet the specialized needs of pediatric surgeons and their patients, who we believe have been largely neglected by the orthopedic industry. We currently serve three of the largest categories in this market. We estimate that the portion of this market that we currently serve represents a $3.3 billion opportunity globally, including over $1.5 billion in the United States.

We sell implants 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 and a few selected international markets, our customers typically expect us to have full sets of implants and instruments on site at each hospital but do not purchase the implants until they are used in surgery. Accordingly, we must make an up-front investment in inventory of consigned implants and instruments before we can generate revenue from a particular hospital and we maintain substantial levels of inventory at any given time. In the international markets where we sell to stocking distributors, we transfer control of our products to the distributor when title passes upon shipment.

We currently market 35 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 38 independent sales agencies employing more than 177 sales representatives specifically focused on pediatrics. These independent sales agents are trained by us, distribute our products and are compensated through sales-based commissions and performance bonuses. We do not sell our products through or participate in physician-owned distributorships, or PODs.

We market and sell our products internationally in 45 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 2017, we began to supplement our international stocking distributors with sales agencies using direct sales programs in the United Kingdom, Ireland, Australia and New Zealand where we sell directly to the hospitals. We began selling direct to Canada in September 2018, Belgium and the Netherlands in January 2019, Italy in March 2020 and Germany, Switzerland and Austria in January 2021. Additionally, in March 2019, we established an operating company in the Netherlands in order to enhance our operations in Europe. In these markets, we work through sales agencies that are paid a commission, similar to our U.S. sales model. We expect these arrangements to generate an increase in revenue and gross margin.

On June 4, 2019, we purchased all of the issued and outstanding shares of stock of Vilex in Tennessee, Inc. ("Vilex") and all of the issued and outstanding units of membership interests in Orthex, LLC ("Orthex") for $60.2 million in total consideration, net of working capital adjustments. Vilex and Orthex (the “Vilex Companies”) are primarily manufacturers of foot and ankle surgical implants, including cannulated screws, fusion devices, surgical staples and bone plates, as well as Orthex Hexapod technology which is used to treat pediatrics congenital deformities and limb length discrepancies.

On December 31, 2019, we divested substantially all of the assets relating to Vilex's adult product offerings to a wholly-owned subsidiary of Squadron Capital LLC ("Squadron") in exchange for a $25.0 million reduction in a term note owed to Squadron in connection with the initial acquisition. As part of the sale, we also executed an exclusive license arrangement with Squadron providing for perpetual access to certain intellectual property.

On March 9, 2020, we purchased all the issued and outstanding membership interest of Telos Partners, LLC ("Telos") for $3.3 million in total consideration. Telos is a boutique regulatory consulting firm formed in Colorado.

On April 1, 2020, we purchased all of the issued and outstanding shares of stock of Apifix Ltd. ("Apifix") for (a) $2.0 million in cash, and (b) 934,783 shares of the Company’s common stock, $0.00025 par value per share, representing approximately $35.2 million (based on a closing share price of $37.63 on April 1, 2020). ApiFix, a corporation organized under the laws of Israel, has developed and manufactures a minimally invasive deformity correction system for patients with Adolescent Idiopathic Scoliosis (AIS) (the “ApiFix System”). The purchase price is subject to a post-closing working capital adjustment. In addition, the Company has also agreed to pay as part of the purchase price the following anniversary payments: (i) $13.0 million on the second anniversary of the closing date, provided that such payment will be paid earlier if 150 clinical procedures using the ApiFix System are completed in the United States before such anniversary date; (ii) $8.0 million on the third anniversary of the closing date; and (iii) $9.0 million on the fourth anniversary of the closing date. In addition, to the extent that the product of the Company’s revenues from the ApiFix System for the twelve months ended June 30, 2024 multiplied by 2.25 exceeds the anniversary payments actually made for the third and fourth years (subject to certain limitations), the Company has agreed to pay the selling shareholders a system sales payment in the amount of such excess. The anniversary payments and the system sales payment may each be made in cash or cash and common stock, subject to certain limitations; provided that the Company may make the determination with respect to anniversary payments and a representative of the former ApiFix shareholders may make the determination with respect to the system sales payment, if any.

On June 10, 2020, we purchased certain intellectual property assets from Band-Lok, LLC, a North Carolina limited liability company ("Band-Lok"), related to its Tether Clamp and Implantation System ("Tether Clamp System") for approximately $3.4 million in total consideration. We use the Tether Clamp System in connection with our Bandloc 5.5/6.0 System. We were previously the sole licensee of the purchased assets under a license agreement with Band-Lok.

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.

Impact of COVID-19 on our Business

A novel strain of the coronavirus disease ("COVID-19") was first identified in Wuhan, China in December 2019, and the related outbreak was subsequently declared a pandemic by the World Health Organization and a national emergency by the President of the United States. As a result of the pandemic, we have experienced significant business disruption. For example, in order to meet the demand for COVID-19-related hospitalizations, various governments, governmental agencies and hospital administrators required certain hospitals to postpone some elective procedures. As a majority of our products are utilized in elective surgeries or procedures, the deferrals of such surgeries and procedures have had, and may continue to have, a significant negative impact on our business and results of operations. We encourage the readers of this document to read our risk factors in its entirety contained in Item 1A “Risk Factors” in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 11, 2021 and in other reports filed with the SEC that discuss the risks and factors that may affect our business.

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

Health and Safety

From the earliest signs of the outbreak, we have taken proactive, aggressive action to protect the health and safety of our employees, customers, partners and suppliers. We enacted rigorous safety measures in all applicable locations, including implementing social distancing protocols, requiring working from home for those employees that do not need to be physically present on the warehouse floor, suspending travel, extensively and frequently disinfecting our workspaces and providing masks to those employees who must be physically present. We will continue to utilize some or all of these measures until we determine that the COVID-19 pandemic is adequately contained for purposes of our business. We may also take further actions as government authorities require or recommend or as we determine to be in the best interests of our employees, customers, partners and suppliers.

Supply

We have not yet experienced any significant impacts or interruptions to our supply chain as a result of the COVID-19 pandemic. To mitigate the risk of any potential supply interruptions from the COVID-19 pandemic, we chose to increase certain inventory levels during the quarter. We may decide to take similar actions going forward. Additionally, restrictions or disruptions of transportation, such as reduced availability of air transport, port closures and increased border controls or closures, have resulted in higher costs and delays.

Demand

The outbreak has significantly increased economic and demand uncertainty. We anticipate that the current outbreak or continued spread of COVID-19, and the actions taken by governmental authorities and other third parties to contain the virus, may cause a global economic slowdown, and it is possible that it could cause a global recession. In the event of a recession, demand for our products would decline and our business would be adversely effected. We have experienced a reduction in revenue as a result of global delays in elective surgeries.

Liquidity

Although there is uncertainty related to the anticipated impact of the recent COVID-19 outbreak on our future results, we believe our business model, our current cash reserves and the recent steps we have taken to strengthen our balance sheet, including our June 2020 and December 2019 equity offerings, leave us well-positioned to manage our business through this crisis as it continues to unfold. We believe our existing balances of cash and our currently anticipated operating cash flows will be sufficient to meet our cash needs arising in the ordinary course of business for the next twelve months.

We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities, including federal, state and local public health authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our operating plan. As such, given the dynamic nature of this situation, we cannot reasonably estimate the impacts of COVID-19 on our financial condition, results of operations or cash flows in the future.

Emerging Growth Company and Smaller Reporting Company Status

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 Months Ended March 31, 2021 and 2020

The following table sets forth our results of operations for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,			
	2021	2020	Increase (Decrease)	%
Net revenue	$ 21,462	$ 16,356	$ 5,106	31 %
Cost of revenue	5,137	4,143	994	24 %
Sales and marketing expenses	8,949	7,564	1,385	18 %
General and administrative expenses	12,041	7,881	4,160	53 %
Research and development expenses	1,308	1,265	43	3 %
Other expenses	4,718	448	4,270	953 %
Provision for income taxes (benefit)	(312)	—	(312)	100 %
Net loss	$ (10,379)	$ (4,945)	$ 5,434	110 %

Net Revenue

The following tables set forth our net revenue by geography and product category for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
Product sales by geographic location:	2021	2020
U.S.	$ 16,839	$ 13,384
International	4,623	2,972
Total	$ 21,462	$ 16,356

	Three Months Ended March 31,	
Product sales by category:	2021	2020
Trauma and deformity	$ 14,552	$ 12,210
Scoliosis	5,951	3,711
Sports medicine/other	959	435
Total	$ 21,462	$ 16,356

Net revenue increased $5.1 million, or 31%, from $16.4 million for the three months ended March 31, 2020 to $21.5 million for the three months ended March 31, 2021. The increase during the three months ended March 31, 2021 reflects the continued return to normalization in both the U.S. and international markets which, during the three months ended March 31, 2020, had begun experiencing the impacts of the COVID-19 pandemic.

Trauma and deformity sales increased $2.3 million, or 19%, during the three months ended March 31, 2021, primarily driven by strong trauma growth, specifically our PNP Femur and PediPlate systems. Scoliosis sales increased $2.2 million, or 60%, during the three months ended March 31, 2021, primarily driven by increased sales of our RESPONSE 5.5/6.0 system and strong performance of the ApiFix® Mid-C System. Sports medicine / other increased $0.5 million, or 120%, during the three months ended March 31, 2021. Nearly all the change 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 24%, from $4.1 million for the three months ended March 31, 2020 to $5.1 million for the three months ended March 31, 2021. The increase was due primarily to increased sales volume in both the U.S. and international markets. Gross margin was 75% for the three months ended March 31, 2020 and 76% for the three months ended March 31, 2021.

Sales and Marketing Expenses

Sales and marketing expenses increased $1.4 million, or 18%, to $8.9 million for the three months ended March 31, 2021 from $7.6 million for the three months ended March 31, 2020. The change in the three month period ended March 31, 2021 was due primarily to fluctuations in sales commission expenses, driven by unit volumes sold.

General and Administrative Expenses

General and administrative expenses increased $4.2 million, or 53%, from $7.9 million for the three months ended March 31, 2020 to $12.0 million for the three months ended March 31, 2021. The increase for the three month period ended March 31, 2021 was due primarily to the additional expenses associated with the ApiFix and Telos acquisitions, the addition of personnel and resources to support the continued

expansion of our business and an increase in legal and other professional service expense associated with our ongoing litigation and acquisitions.

Depreciation and amortization expenses increased $1.2 million, or 86%, from $1.4 million for the three months ended March 31, 2020 to $2.5 million for the three months ended March 31, 2021. The increase for the three month period ended March 31, 2021 was primarily due to the amortization of intangible assets acquired through the Vilex, Telos and ApiFix acquisitions and the purchase of the Band-Lok intellectual property.

Research and Development Expenses

Research and development expenses of $1.3 million for the three months ended March 31, 2021 remained flat to a similar amount for the three months ended March 31, 2020.

Total Other Expenses

Other expenses were $4.7 million and $0.4 million for the three months ended March 31, 2021 and 2020, respectively. The increase in other expense is due to the accretion of interest expense attributable to the acquisition installment payable and the fair value adjustments of contingent consideration related to the ApiFix acquisition. Total interest expense and fair value adjustments for the three months ended March 31, 2021 were $0.6 million and $4.2 million, respectively.

Liquidity and Capital Resources

We have incurred operating losses since inception which resulted in negative cash flows for continuing operations from operating activities of $1.9 million and $7.0 million for the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, we had an accumulated deficit of $172.1 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 March 31, 2021, we had cash and cash equivalents, restricted cash and short term investments of $78.0 million.

Cash Flows

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

	Three Months Ended March 31,	
	2021	2020
Net cash used in operating activities	$ (1,915)	$ (6,956)
Net cash used in investing activities	(5,607)	(5,623)
Net cash provided by (used in) financing activities	30	(4,530)
Effect of exchange rate changes on cash	155	23
Net increase (decrease) in cash	$ (7,337)	$ (17,086)

Cash Used in Operating Activities

Net cash used in operating activities from continuing operations was $1.9 million and $7.0 million for the three months ended March 31, 2021 and 2020, 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 provided by working capital was $0.1 million and net cash used for working capital was $4.3 million

for the three months ended March 31, 2021 and 2020, respectively. During the three months ended March 31, 2021, the primary driver of working capital cash usage was the increase in inventory of $2.5 million related to future sales growth and our acquisitions and new agencies and accrued legal settlements. This cash usage was offset primarily by trade payables which was a source of cash of $2.1 million.

Cash Used in Investing Activities

Net cash used in investing activities was $5.6 million for each of the three months ended March 31, 2021 and 2020, respectively. Net cash used in investing activities for the three months ended March 31, 2021 consisted of the purchase of a license agreement as a result of the Dr. Barry legal settlement (see “Part II, Item 1 – Legal Proceedings” of this quarterly report for additional information) and purchases of instrument sets of $2.7 million. Net cash used in investing activities for the three months ended March 31, 2020 consisted of $1.6 million for the acquisition of Telos, net of cash received, and $4.0 million for purchases of instrument sets.

Cash Provided By Financing Activities

Net cash provided by financing activities was $0.0 million and net cash used in financing activities was $(4.5) million for the three months ended March 31, 2021 and 2020, respectively. Net cash provided by financing activities for the three months ended March 31, 2021 was immaterial to the results of our operations. Net cash used in financing activities for the three months ended March 31, 2020 consisted primarily of the payment of $5 million of the revolving credit facility with Squadron and the repurchase of $0.2 million of common shares, offset by $0.7 million from the exercise of stock options.

Indebtedness

Loan Agreement

On December 31, 2017, we entered into a Fourth Amended and Restated Loan and Security Agreement, or the Loan Agreement, with Squadron Capital LLC, or Squadron, the Company's largest investor. Under the terms of the Loan Agreement, which has been amended by a First Amendment dated as of June 4, 2019 and a Second Amendment dated as of August 4, 2020 (as so amended, the “Second Amended Loan Agreement”), Squadron is providing the Company a revolving credit facility in the amount of $25.0 million. Borrowings under the revolving credit facility are to be made under a First Amended and Restated Revolving Note, dated August 4, 2020 (the “Amended Revolving Note”), payable, jointly and severally, by the Company and each of its subsidiaries party thereto. The Amended Revolving Note will mature at the earlier of: (i) the date on which any person or persons acquire (x) capital stock of the Company possessing the voting power to elect a majority of the Company’s Board of Directors (whether by merger, consolidation, reorganization, combination, sale or transfer), or (y) all or substantially all of the Company’s assets, determined on a consolidated basis; and (ii) January 1, 2024. The Second Amended Loan Agreement provides for interest only payments, which are payable monthly, with an interest rate equal to the greater of (a) three month LIBOR plus 8.61%, and (b) 10.00%.

On January 4, 2020, the Company repaid Squadron $5.0 million outstanding under the revolving credit facility in effect at that time and, on July 15, 2020, the Company repaid the $20.0 million Term Note A outstanding under the Loan Agreement, together with all unpaid interest and other related amounts payable. The Company does not currently have any borrowings outstanding under the Second Amended Loan Agreement.

The Company has agreed to pay Squadron an unused commitment fee in an amount equal to the per annum rate of 0.50% (computed on the basis of a year of 360 days and the actual number of days elapsed) times the daily unused portion of the revolving credit commitment. The unused commitment fee is payable quarterly in arrears.

Borrowings under the Second Amended Loan Agreement are secured by substantially all of the Company's assets and are unconditionally guaranteed by each of its subsidiaries with the exception of Vilex. There are no traditional financial covenants associated with the Second Amended 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 Second Amended Loan Agreement.

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

Mortgage Note

In August 2013, pursuant to the purchase of our office and warehouse space, we entered into a mortgage note payable to Tawani Enterprises Inc., the owner of which is a member of Squadron’s management committee. Pursuant to the terms of the mortgage note, we pay Tawani Enterprises Inc. monthly principal and interest installments of $15,543, 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 $1.1 million and $1.2 million at March 31, 2021 and December 31, 2020, 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.

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.

K2M - Alleged Patent Infringement

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 June 28, 2018, the United States Patent and Trademark Office's Patent Trial and Appeal Board ("PTAB") instituted limited review concerning whether certain third parties had described the invention of certain of K2M's patent claims before allegedly invented by K2M. On July 10, 2018, the Court stayed the litigation pending the outcome of PTAB's review. On June 4, 2019, PTAB completed its review, finding, among other things, insufficient evidence of such description by the third parties. In early October 2019, the Court orally lifted the stay in federal district court. Thereafter, on November 19, 2019, K2M amended its complaint to add two (2) additional issued patents, to add claims of patent infringement regarding U.S. Patent Nos. 10,285,735 and 10,292,736 (both issued in May 2019). Like before, these newly issued patents relate to certain instruments used in our RESPONSE spine systems. Additionally, we have denied these most recent claims and responded with counterclaims seeking declaratory relief that the subject patents are both invalid and not infringed. Moreover, on November 20, 2019, the Court issued its Scheduling Order, which in part, set a trial date for April 12, 2021. Subsequently, the parties attended a second court-ordered mediation on February 25, 2020, which did not resolve the dispute.

Throughout 2021, we have continued settlement negotiations regarding this matter and anticipate that it will be settled in the near term. Because the Company considers a potential settlement to be probable, it previously accrued for the related expense during the fourth quarter of 2020. No material modifications were made to the accrual during the quarter ended March 31, 2021. While the Company considers it probable, no assurance can be given that a final settlement will be reached and, were negotiations to cease, we would vigorously defend the claims asserted against us.

IMED Surgical - Software Ownership Dispute

On October 16, 2020, the Company, its wholly-owned subsidiary, Orthex, LLC (“Orthex”), the Company’s largest investor, Squadron Capital, LLC (“Squadron”), and certain other defendants, were named in a lawsuit filed by IMED Surgical, LLC, a New Jersey company (the “Plaintiff”), in Broward County, Florida Circuit Court. In the lawsuit, the Plaintiff claims, among other things, that it is the rightful owner of certain patented point-and-click planning software being used by the Company, Orthex and Squadron (the “Point & Click Software”).

In June 2019, the Company purchased all the issued and outstanding units of membership interests in Orthex, and all the issued and outstanding shares of stock of Vilex in Tennessee, Inc. (“Vilex”) for $60 million in total consideration. Vilex and Orthex are primarily manufacturers of foot and ankle surgical implants, including cannulated screws, fusion devices, surgical staples and bone plates, as well as the Orthex Hexapod technology, a system of rings, struts, implants, hardware accessories, and the Point &

Click Software used to treat congenital deformities and limb length discrepancies. On December 31, 2019, the Company divested substantially all of the assets relating to Vilex's adult product offerings to a wholly-owned subsidiary of Squadron, in exchange for a $25 million reduction in a term note owed to Squadron in connection with the initial acquisition. As part of the sale, the Company also executed an exclusive license arrangement with Squadron providing for perpetual access to certain intellectual property, including the Point & Click Software. According to the lawsuit, the other defendants, who are unrelated to the Company, assigned the Point & Click Software to Orthex in violation of certain agreements with the Plaintiff.

The Plaintiff, among other things, requests that the defendants be ordered to convey and assign to Plaintiff all of their rights, title and interests in and to the Software and seeks certain compensatory, consequential and unjust enrichment damages from Orthex and the unrelated defendants. Although we believe the IMED lawsuit is without merit and will vigorously defend the claims asserted us, 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.

Barry - Alleged Patent Infringement

On December 30, 2020, Dr. Mark Barry filed suit against us in the United States District Court for the District of Delaware (Barry v. OrthoPediatrics Corp. et al., Case No. 1:20-cv-01786) seeking unspecified damages for alleged infringement of U.S. Patent Nos. 7,670,358; 8,361,121; 9,339,301; 9,668,787; and 9,668,788, which relate to systems and methods concerning derotation of spinal bodies to correct spinal deformities. On March 19, 2021, the parties reached a final settlement, which included the Company entering into a license agreement with Dr. Barry. The license agreement was recorded by the Company in the amount of $2.9 million, which will be amortized over a period of up to 8 years based upon the number of cases utilizing the related spinal deformity system in a given period. The balance of the amount otherwise paid to Dr. Barry had been previously accrued for during the fourth quarter of 2020 in anticipation of this final settlement.

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 11, 2021. There have been no material changes to these Risk Factors since the filing of our Annual Report on Form 10-K.

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

a. Sale of Unregistered Securities.

None.

b. Use of Proceeds.

None.

c. Issuer Purchases of Equity Securities.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

a. Failure to file under Form 8-K.

None.

b. Modifications to nomination process.

None.

ITEM 6. EXHIBITS

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

Exhibit Number		Description
2.1*		Share Purchase Agreement, dated April 1, 2020, by and among OrthoPediatrics Corp., ApiFix Ltd. ("ApiFix"), certain controlling shareholders of ApiFix, and the sellers' representative named therein (Incorporated by reference to Exhibit 2.1 of registrant's Form 8-K filed on April 1, 2020) (SEC File No. 001-38242)
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		First Amendment to the Fourth Amended and Restated Loan Agreement, dated as of June 4, 2019, by and among OrthoPediatrics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed on June 5, 2019) (SEC File No. 001-38242)
10.3		Second Amendment to the Fourth Amended and Restated Loan Agreement, dated as of August 4, 2020, by and among OrthoPediatrics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.3 to registrant's Form 10-Q filed on August 6, 2020) (SEC File No. 001-38242)
10.4		First Amended and Restated Revolving Note, dated August 4, 2020, made payable, jointly and severally, by OrthoPediatrics Corp. and each of its subsidiaries party thereto (Incorporated by reference to Exhibit 10.4 to registrant's Form 10-Q filed on August 6, 2020) (SEC File No. 001-38242)
31.1	+	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	+	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	++	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	++	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	+	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.)
101.SCH	+	Inline XBRL Taxonomy Extension Schema Document
101.CAL	+	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	+	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	+	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	+	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104		Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

* The schedules to the Share Purchase Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any schedule omitted from the Purchase Agreement to the SEC upon request.

+ Filed herewith.

++ Furnished herewith.

SIGNATURES

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

ORTHOPEDIATRICS CORP.

May 6, 2021

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

May 6, 2021

By: /s/ David R. Bailey
David R. Bailey
President

May 6, 2021

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

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

I, 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
Chief Executive Officer
(Principal Executive Officer)

Date: May 6, 2021

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

I, Fred L. Hite, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OrthoPediatrics Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Fred L. Hite
Fred L. Hite
Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)

Date: May 6, 2021

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 March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Mark C. Throdahl, 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
Chief Executive Officer
(Principal Executive Officer)

Date: May 6, 2021

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 March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Fred L. Hite, Chief Financial Officer and Chief Operating Officer of the Company, hereby certifies, pursuant to 18 Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Company.

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

/s/ Fred L. Hite
Fred L. Hite
Chief Financial Officer and Chief Operating Officer
(Principal Financial Officer)

Date: May 6, 2021