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, 2022

OR

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

For the transition period from _____ to _____

Commission file number: **001-38242**

OrthoPediatrics Corp.

(Exact name of registrant as specified in its charter)

Delaware	**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 3, 2022, the registrant had 20,229,901 outstanding shares of common stock, $0.00025 par value per share.

OrthoPediatrics Corp.
Form 10-Q
For the Quarterly Period Ended March 31, 2022

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,957	$ 7,641
Restricted cash	1,363	1,365
Short term investments	27,068	45,902
Accounts receivable - trade, less allowance for doubtful accounts of $357 and $347, respectively	17,911	17,942
Inventories, net	64,077	57,569
Prepaid expenses and other current assets	3,048	3,229
Total current assets	131,424	133,648
Property and equipment, net	31,068	28,515
Other assets:		
Amortizable intangible assets, net	53,476	55,494
Goodwill	70,987	72,349
Other intangible assets	14,040	14,268
Total other assets	138,503	142,111
Total assets	$ 300,995	$ 304,274
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 14,578	$ 9,325
Accrued compensation and benefits	4,433	5,351
Current portion of long-term debt with affiliate	139	137
Current portion of acquisition installment payable	12,934	12,862
Other current liabilities	2,249	2,040
Total current liabilities	34,333	29,715
Long-term liabilities:		
Long-term debt with affiliate, net of current portion	872	907
Acquisition installment payable, net of current portion	14,690	14,309
Contingent consideration	31,480	28,910
Deferred income taxes	4,335	4,771
Other long-term liabilities	241	293
Total long-term liabilities	51,618	49,190
Total liabilities	85,951	78,905
Stockholders' equity:		
Common stock, $0.00025 par value; 50,000,000 shares authorized; 19,821,298 shares and 19,677,214 shares issued as of March 31, 2022 (unaudited) and December 31, 2021, respectively	5	5
Additional paid-in capital	396,425	394,899
Accumulated deficit	(187,126)	(178,026)
Accumulated other comprehensive income	5,740	8,491
Total stockholders' equity	215,044	225,369
Total liabilities and stockholders' equity	$ 300,995	$ 304,274

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
Net revenue	$ 23,417	$ 21,462
Cost of revenue	4,851	5,137
Gross profit	18,566	16,325
Operating expenses:		
Sales and marketing	9,758	8,949
General and administrative	13,167	12,041
Research and development	2,027	1,308
Total operating expenses	24,952	22,298
Operating loss	(6,386)	(5,973)
Other expenses:		
Interest expense, net	566	728
Fair value adjustment of contingent consideration	2,570	4,150
Other income	(105)	(160)
Total other expenses	3,031	4,718
Loss before income taxes	$ (9,417)	$ (10,691)
Provision for income taxes (benefit)	(317)	(312)
Net loss	$ (9,100)	$ (10,379)
Weighted average common stock - basic and diluted	19,366,911	19,200,231
Net loss per share - basic and diluted	$ (0.47)	$ (0.54)

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
Net loss	$ (9,100)	$ (10,379)
Other comprehensive loss:		
Foreign currency translation adjustment	(2,198)	(3,499)
Unrealized loss on short-term investments	(553)	(123)
Other comprehensive loss, net of tax	(2,751)	(3,622)
Comprehensive loss	$ (11,851)	$ (14,001)

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, 2022					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Value				
Balance at January 1, 2022	19,677,214	$ 5	$ 394,899	$ (178,026)	$ 8,491	$ 225,369
Net loss	—	—	—	(9,100)	—	(9,100)
Other comprehensive loss	—	—	—	—	(2,751)	(2,751)
Restricted stock	144,084	—	1,526	—	—	1,526
Balance at March 31, 2022	19,821,298	$ 5	$ 396,425	$ (187,126)	$ 5,740	$ 215,044

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

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2022	2021
OPERATING ACTIVITIES		
Net loss	$ (9,100)	$ (10,379)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,961	2,539
Stock-based compensation	1,526	1,316
Fair value adjustment of contingent consideration	2,570	4,150
Acquisition installment payable	453	644
Deferred income taxes	(317)	(312)
Changes in certain current assets and liabilities:		
Accounts receivable - trade	2	653
Inventories	(6,750)	(2,508)
Prepaid expenses and other current assets	112	708
Accounts payable - trade	5,258	2,058
Accrued legal settlements	—	(1,092)
Accrued expenses and other liabilities	(690)	446
Other	(222)	(138)
Net cash used in operating activities	(4,197)	(1,915)
INVESTING ACTIVITIES		
Sale of short-term marketable securities	18,500	—
Purchases of licenses	—	(2,858)
Purchases of property and equipment	(4,197)	(2,749)
Net cash provided by (used in) investing activities	14,303	(5,607)
FINANCING ACTIVITIES		
Proceeds from exercise of stock options	—	62
Payments on mortgage notes	(33)	(32)
Net cash (used in) provided by financing activities	(33)	30
Effect of exchange rate changes on cash	241	155
NET (DECREASE) INCREASE IN CASH	10,314	(7,337)
Cash and restricted cash, beginning of year	$ 9,006	$ 30,132
Cash and restricted cash, end of period	$ 19,320	$ 22,795
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 13	$ 15
Transfer of instruments from property and equipment to inventory	$ (54)	$ 57

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™, 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.

We are the only global medical device company focused exclusively on providing a comprehensive trauma and deformity correction, scoliosis and sports medicine product offering to the pediatric orthopedic market in order to improve the lives of children with orthopedic conditions. Since inception we have impacted the lives of over 243,000 children. We design, develop and commercialize innovative orthopedic implants and instruments to meet the specialized needs of pediatric surgeons and their patients, who we believe have been largely neglected by the orthopedic industry. We currently serve three of the largest categories in this market. We estimate that the portion of this market that we currently serve represents a $3,300 opportunity globally, including over $1,500 in the United States.

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

A novel strain of the coronavirus disease was first identified in Wuhan, China in December 2019, and the related outbreak was subsequently declared a pandemic by the World Health Organization and a national emergency by the President of the United States. 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 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. Despite the impact COVID-19 has had on our business, we continued to invest in research and development, invest in our people, and take steps to position ourselves for long-term success. We continue to train and educate our sales team and our surgeons on our products. We have continued to focus on developing innovative solutions, acquired multiple enabling technologies, invested in both new and existing partnerships and continued to deploy additional consigned instrument and implant sets in furtherance of our strategy. 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, 2022 and December 31, 2021, the condensed consolidated statements of operations for the three months ended March 31, 2022 and 2021, the condensed consolidated statements of comprehensive loss for the three months ended March 31, 2022 and 2021, the condensed consolidated statements of stockholders’ equity for the three months ended March 31, 2022 and 2021 and the condensed consolidated statements of cash flows for the three months ended March 31, 2022 and 2021 are unaudited and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2021 and related notes thereto contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 3, 2022. The financial data and other financial information disclosed in the notes to the accompanying condensed consolidated financial statements are also unaudited. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to applicable rules and regulations thereunder.

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

The accompanying condensed consolidated financial statements have been prepared assuming our Company will continue as a going concern. We have experienced recurring losses from operations since our inception and had an accumulated deficit of $187,126 and $178,026 as of March 31, 2022 and December 31, 2021, respectively. Management continues to monitor cash flows and liquidity on a regular basis. We believe that our cash balance, including short term investments, at March 31, 2022 and expected cash flows from operations for the next twelve months subsequent to the issuance of the accompanying condensed consolidated financial statements, are sufficient to enable us to maintain current and essential planned operations for more than the next twelve months.

Use of Estimates

Preparation of our condensed consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as of the date of the condensed consolidated financial statements. By their nature, these judgments are subject to an inherent degree of uncertainty. We use historical experience and other assumptions as the basis for our judgments and estimates. Because future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any changes in these estimates will be reflected in our consolidated financial statements.

Foreign Currency Transactions

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

Beginning in early 2017 and continuing through 2021, we expanded operations and established legal entities outside the United States, permitting us to sell under an agency model direct to local hospitals internationally. The countries we serve under the agency model include the United Kingdom, Ireland,

Australia, New Zealand, Canada, Belgium, the Netherlands, Poland, Italy, Israel, Germany, Switzerland, and Austria. Additionally, in March 2019, we established an operating company in the Netherlands in order to enhance our operations in Europe. The financial statements of our foreign subsidiaries are accounted for in local functional currencies and have been translated into U.S. dollars using end-of-period exchange rates for assets and liabilities and average exchange rates during each reporting period for results of operations. Foreign currency translation adjustments have been recorded as a separate component of the consolidated statements of comprehensive loss.

Revenue from Contracts with Customers

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

Revenue Recognition – United States

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

Revenue Recognition – International

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

Beginning in early 2017 and continuing through 2021, we expanded operations and established legal entities outside the United States, permitting us to sell under an agency model direct to local hospitals internationally. The products are generally consigned to our independent sales agencies, and revenue is recognized when the products are used by or shipped to the hospital for surgeries on a case by case basis. On rare occasions, hospitals purchase products for their own inventory, and revenue is recognized when title passes upon shipment. Pricing for each customer is dictated by a unique pricing agreement.

Cash, Cash Equivalents and Short Term Investments

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

The Company invests in available-for-sale short term investments. The Company has the ability, if necessary, to liquidate without penalty any of its short term investments to meet its liquidity needs in the

next twelve months. As such, those investments with contractual maturities greater than one year from the date of purchase are classified as short-term on the accompanying Consolidated Balance Sheets. The company includes unrealized gains or losses in stockholders' equity. If the adjustment to fair value reflects a decline in the value of the investment, the Company considers available information to determine whether the decline is "other than temporary" and, if so, reflects the change on the Consolidated Statements of Operations.

Restricted Cash

In conjunction with the sale of Vilex, $1,250 was placed into a separate escrow account. This cash is reported as restricted cash on the March 31, 2022 and December 31, 2021 condensed consolidated balance sheets. These funds were to remain restricted until August 31, 2021, at which time, they were to be released to the Company subject to no claims related to the purchase being asserted; however, due to the pending IMED Surgical litigation, the cash remains reported as restricted until the conclusion of the legal matter (see “Legal Proceedings” under Note 12 – Commitments and Contingencies for additional information). 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 except for investments classified as asset backed securities which we identify as Level 2. These securities are predominately priced by third parties, either a pricing vendor or dealer. When a quoted price in an active market for an identical security is not available these third parties will utilize an alternative market approach, such as a recent trade or matrix pricing, or an income approach, such as a discounted cash flow pricing model that calculates values from observable inputs such as quoted interest rates, yield curves and other observable market information. Contingent consideration represents the system sales payment the Company is obligated to make. The fair value of the contingent consideration payment is considered a level 3 fair value measurement and was determined with the assistance of an independent valuation specialist at the original issuance date and as of the balance sheet date. See Note 4 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 for licenses upon market launch, respectively. Amortization for assets acquired commences upon acquisition. Intangible assets are amortized over a 3 to 20 year period.

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

Goodwill and Other Intangible Assets

Our goodwill represents the excess of the cost over the fair value of net assets acquired. The determination of the value of goodwill and intangible assets arising from acquisitions requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is assessed for impairment using fair value measurement techniques on an annual basis or more frequently if facts and circumstances warrant such a review. The goodwill is considered to be impaired if we determine that the carrying value of our one reporting unit exceeds its respective fair value. No impairment charges were recorded in any of the periods presented.

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

We have indefinite lived trademark assets that are reviewed for impairment by performing a quantitative analysis, which occurs annually in the fourth quarter, utilizing balances as of October 1, or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to future net discounted cash flows expected to be generated by the associated asset. 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. Acquisition installment payables, which are fixed future payments, are recorded at their net present value, and contingent consideration is recorded at fair value as determined by management with the assistance of an independent valuation specialist at the original issuance date and is marked to fair value on a recurring basis. Accretion of interest expense attributable to the acquisition installment payable is recorded as a component of interest expense, net. Changes in the fair value of the contingent consideration are included in fair value adjustments of contingent consideration on the condensed consolidated statement of operations. The amount of expense related to acquisition installment payables recorded in interest expense, net for the three months ended March 31, 2022 and March 31, 2021 were $453 and $644, respectively. The fair value adjustments of contingent consideration for the three months ended March 31, 2022 and March 31, 2021 were expense adjustments of $2,570 and $4,150, respectively.

Cost of Revenue

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

Sales and Marketing Expenses

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

Advertising Costs

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

Research and Development Costs

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

Stock-Based Compensation

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 1,832,460 shares for award.

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

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

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

Litigation and Contingencies

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

Comprehensive Income (Loss)

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

Income Taxes

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

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

Leases

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

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

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

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

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

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

Recent Accounting Pronouncements

In October 2021, the FASB issued ASU No. 2021-08 *"Business Combinations (Topic 805)-Accounting for Contract Assets and Contract Liabilities from Contracts with Customers".* The amendments in this Update address diversity and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination. The amendments in this Update require that an acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606, Revenue from Contracts with Customers. The amendments in this Update require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal

years. The amendments in this Update should be applied prospectively to business combinations occurring on or after the effective date of the amendments. Early adoption of the amendments is permitted, including adoption in an interim period. An entity that early adopts in an interim period should apply the amendments (1) retrospectively to all business combinations for which the acquisition date occurs on or after the beginning of the fiscal year that includes the interim period of early application and (2) prospectively to all business combinations that occur on or after the date of initial application. The Company is currently evaluating the impact of adopting ASU 2021-08 on its consolidated financial statements.

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

In June 2016, the FASB issued ASU No. 2016-13 "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"*. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for 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 - GOODWILL AND INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill for the three months ended March 31, 2022 were as follows:

	Total
Goodwill at January 1, 2022	$ 72,349
Foreign currency translation impact	(1,362)
Goodwill at March 31, 2022	$ 70,987

Intangible Assets

As of March 31, 2022, the balances of amortizable intangible assets were as follows:

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Patents	13.5 years	$ 43,656	$ (6,287)	$ 37,369
Intellectual Property	9.8 years	9,834	(1,584)	8,250
License Agreements	5.2 years	10,674	(2,817)	7,857
Total amortizable assets		$ 64,164	$ (10,688)	$ 53,476

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

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Patents	13.7 years	$ 44,493	$ (5,664)	$ 38,829
Intellectual Property	10.1 years	9,847	(1408)	8,439
License Agreements	5.5 years	10,674	(2,448)	8,226
Total amortizable assets		$ 65,014	$ (9,520)	$ 55,494

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

Trademarks are non-amortizing intangible assets which were $14,040 and $14,268 as of March 31, 2022 and December 31, 2021, respectively. Trademarks are recorded in Other Intangible assets on the condensed consolidated balance sheets. The change in balance during the three months ended March 31, 2022 was the result of foreign currency translation of the ApiFix trademark.

NOTE 4 - 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, 2022 and December 31, 2021.

	March 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Short term investments				
Corporate Bonds	$ 13,776	$ —	$ —	$ 13,776
Treasury Bonds	$ 7,445	$ —	$ —	$ 7,445
Asset Backed Securities	$ —	$ 5,261	$ —	$ 5,261
Other	$ 586	$ —	$ —	$ 586
Financial Liabilities				
Contingent Consideration	$ —	$ —	$ 31,480	$ 31,480

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Short term investments				
Corporate Bonds	$ 22,476	$ —	$ —	$ 22,476
Treasury Bonds	$ 14,317	$ —	$ —	$ 14,317
Asset Backed Securities	$ —	$ 8,272	$ —	$ 8,272
Other	$ 837	$ —	$ —	$ 837
Financial Liabilities				
Contingent Consideration	$ —	$ —	$ 28,910	$ 28,910

The Company's level 1 assets consist of 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 fair value of the contingent consideration payment is considered a Level 3 fair value measurement and was determined with the assistance of an independent valuation specialist at the original issuance date using an option pricing model and a Monte Carlo simulation based on forecasted annual revenue, expected volatility and discount rates. The fair value of contingent consideration liabilities assumed in business combinations is recorded as part of the purchase price consideration of the acquisition and is determined using a discounted cash flow model or probability simulation model. The significant inputs of such models are not always observable in the market, such as certain financial metric growth rates, volatility rates, projections associated with the applicable milestone, the interest rate, and the related probabilities and payment structure in the contingent consideration arrangement. The adjustments in the fair value of the contingent consideration payments included expense adjustment of $2,570 and $4,150 for the three month periods ended March 31, 2022 and March 31, 2021, respectively, in other expenses on the condensed consolidated statements of operations.

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

	Total
Balance at January 1, 2022	$ 28,910
Change in fair value of contingent consideration	2,570
Balance at March 31, 2022	$ 31,480

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, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Valuation techniques	Discounted cash flow, Monte Carlo	
Present value discount rate[(1)]	19.3 %	18.4 %
Volatility factor	46.5 %	50.3 %
Expected years	2.1 years	2.4 years

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

The estimated fair value reflects assumptions made by management as of March 31, 2022; however, the actual amount ultimately paid could be higher or lower than the fair value of the remaining contingent consideration.

NOTE 5 - DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following:

	March 31, 2022	December 31, 2021
Mortgage payable to affiliate	$ 1,011	$ 1,044
Less: current maturities	139	137
Long-term debt with affiliate, net of current maturities	$ 872	$ 907

Effective December 31, 2021, the Company entered into a Third Amendment (the "Third Amendment") to its Fourth Amended and Restated Loan and Security Agreement with Squadron Capital LLC, or Squadron (as so amended, the “Loan Agreement”). The Loan Agreement provides a $25,000 revolving credit facility, with interest only payments, at an annual interest rate equal to the greater of (a) six month SOFR plus 8.69% and (b) 10.0%. The Company pays Squadron an unused commitment fee in an amount equal to the per annum rate of 0.50% (computed on the basis of a year of 360 days and the actual number of days elapsed) times the daily unused portion of the revolving credit commitment. The unused commitment fee is payable quarterly in arrears. Prior to the Third Amendment, the interest rate on the facility had been equal to the greater of (a) three month LIBOR plus 8.61% and (b) 10.0%. While the Loan Agreement previously provided for certain term loans, there are no longer any outstanding term loan obligations.

Borrowings under the revolving credit facility are 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.

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

In connection with the purchase of our office and warehouse space in Warsaw, Indiana in August 2013, we entered into a mortgage note payable to Tawani Enterprises Inc., an affiliate of Squadron. Pursuant to the terms of the mortgage note, we pay Tawani Enterprises Inc. monthly principal and interest installments of $16 with interest compounded at 5% until maturity in 2028, at which time a final payment of remaining principal and interest is due. The mortgage is secured by the related real estate and building. At March 31, 2022 the mortgage balance was $1,011 of which current principal of $139 was included in the current portion of long-term debt. As of December 31, 2021, the mortgage balance was $1,044 of which current principal due of $137 was included in the current portion of long-term debt.

The aggregate interest expense relating to the notes payable to Squadron and the mortgage note payable to Tawani was $13 and $15 for the three months ended March 31, 2022 and 2021, respectively.

NOTE 6 - 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, 2022, the income tax benefit was $317 compared to $312 for the three months ended March 31, 2021. Our effective income tax rate was 3.4% and 2.9% for the three months ended March 31, 2022 and 2021, respectively.

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

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended March 31, 2022. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth.

NOTE 7 - STOCKHOLDERS' EQUITY

Stock Options

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

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

	Options	Weighted-Average Exercise Price	Contractual Terms (in Years)
Outstanding at January 1, 2022	6,638	$ 30.97	1.3
Outstanding at March 31, 2022	6,638	$ 30.97	1.1

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

There was no stock-based compensation expense on stock options for the three months ended March 31, 2022 and 2021, 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, 2022	368,446	1.1
Granted	146,425	
Forfeited	(2,341)	
Vested	(120,656)	
Outstanding at March 31, 2022	391,874	1.9
Restricted stock exercisable at March 31, 2022	—	

At March 31, 2022, there was $12,443 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 1.9 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 $1,526 and $1,440 for the three months ended March 31, 2022 and 2021, respectively. The increase in the stock compensation for the three months ended March 31, 2022 is primarily due to increase in plan participants as we continue to hire employees to support the continued expansion of our business.

NOTE 8 – NET LOSS PER SHARE

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

	Three Months Ended March 31,	
	2022	2021
Net loss	$ (9,100)	$ (10,379)
Weighted average number of shares - basic and diluted	19,366,911	19,200,231
Net loss per share - basic and diluted	$ (0.47)	$ (0.54)

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,	
	2022	2021
Restricted stock	391,874	389,098
Stock options	6,638	10,792
Total shares	398,512	399,890

NOTE 9 – 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, 2022 or 2021. No customer accounted for more than 10% of consolidated accounts receivable as of March 31, 2022 and December 31, 2021.

Product sales by source were as follows:

	Three Months Ended March 31,	
Product sales by geographic location:	2022	2021
U.S.	$ 18,188	$ 16,839
International	5,229	4,623
Total	$ 23,417	$ 21,462

	Three Months Ended March 31,	
Product sales by category:	2022	2021
Trauma and deformity	$ 16,516	$ 14,552
Scoliosis	5,983	5,951
Sports medicine/other	918	959
Total	$ 23,417	$ 21,462

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, 2022 and 2021.

NOTE 10 - 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 $316 and $72 for the three months ended March 31, 2022 and 2021, respectively.

On December 31, 2019, the Company divested Vilex for $25,000 to an affiliate of Squadron. In conjunction with the divestiture, the Company also entered into an exclusive perpetual license agreement to permit the purchasers of Vilex the ability to access intellectual property and sell products using the external fixation technology of Orthex, LLC to non-pediatric accounts. We had sales and payments related to inventory purchases to Squadron's affiliate, now known as Vilex, LLC, of $8 and $25, respectively, for the three months ended March 31, 2022. We had sales and payments related to inventory purchases to Vilex, LLC of $87 and $189, respectively, for the three months ended March 31, 2021.

NOTE 11 - 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 12 – COMMITMENTS AND CONTINGENCIES

Leases

As of March 31, 2022, the Company has recorded a lease liability of $241 and corresponding right-of-use-asset of $243 on its condensed consolidated balance sheet.

Legal Proceedings

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

IMED Surgical - Software Ownership Dispute

On October 16, 2020, the Company, its wholly-owned subsidiary, Orthex, LLC (“Orthex”), the Company’s largest investor, Squadron Capital, LLC (“Squadron”), and certain other defendants, were named in a lawsuit filed by IMED Surgical, LLC, a New Jersey company (the “Plaintiff”), in Broward County, Florida Circuit Court. In the lawsuit, the Plaintiff claims, among other things, that it is the rightful owner of certain patented point-and-click planning software being used by the Company, Orthex and Squadron (specifically, U.S. Patent No. 10,258,377 (titled “Point and click alignment method for orthopedic surgeons, and surgical and clinical accessories and devices,” issued on April 16, 2019) (hereinafter, the “’377 Patent”).

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

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

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

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

Wishbone Medical, Inc. – Patent Infringement Litigation

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

Thereafter, in January 2021, Wishbone filed a motion to dismiss all OrthoPediatrics’ causes of action. In late August 2021, the Court denied Wishbone's motion to dismiss with respect to OrthoPediatrics’ infringement and breach of contract claims and dismissed OrthoPediatrics' remaining causes of action. In late September 2021, Wishbone filed its answer and counterclaims, in part, seeking declaratory judgment of non-infringement and invalidity of the ‘377 Patent, and alleging OrthoPediatrics patent infringement claim(s) against Wishbone was made in bad faith. In mid-October 2021, OrthoPediatrics filed its answer to Wishbone’s counterclaims, denying all of them. Although we believe Wishbone’s counterclaims are without merit and will vigorously defend the claims asserted against us, litigation can involve complex factual and legal questions, and an adverse resolution of this proceeding could have an adverse effect on our business, operating results and financial condition.

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

Purchase Obligations and Performance Requirements

As a result of entering into a license agreement for the exclusive distribution of the 7D Surgical FLASH™ Navigation platform, the Company has agreed to a minimum purchase commitment for the first twelve months of that agreement. As of March 31, 2022, the remaining purchase commitment under the agreement was $1,900.

On July 20, 2021, we entered into an amended license agreement, resulting in a five-year extension of our exclusive distribution rights of the FIREFLY Technology. As a component of the agreement the Company is required to meet minimum performance metrics, measured by the number of spine procedures in the fiscal year which used the FIREFLY products against the annual requirement in the agreement. This includes any scheduled surgeries whereby the Company has committed to payment of the product. The number of required surgeries varies each year of the agreement. The Company analyzes its projected achievement of these performance metrics and accrues for any estimated shortfall. During the three months ended March 31, 2022, the Company recorded an expense of $101 based on current estimates. No expense was recorded for the three months ended March 31, 2021.

Royalties

As of March 31, 2022, we are contracted to pay royalties to individuals and entities that provide research and development services, which range from 0.5% to 20% of sales.

We have products in development that have milestone payments and royalty commitments. In any development project, there are significant variables that will affect the amount and timing of these payments and as of March 31, 2022, we have not been able to determine the amount and timing of payments. We do not anticipate these future payments will have a material impact on our financial results.

NOTE 13 – SUBSEQUENT EVENTS

MD Orthopaedics Acquisition

On April 1, 2022, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with OrthoPediatrics Iowa Holdco, Inc., a Delaware corporation and newly-formed wholly-owned subsidiary of the Company (“Merger Sub”), Mitchell Designs, Inc. (“Designs”), an Iowa corporation and the sole shareholder of MD Orthopaedics, Inc., also an Iowa corporation (“MD Ortho”) and John Mitchell, the sole shareholder of Designs (“Mitchell”). MD Ortho has developed and manufactures a portfolio of orthopedic clubfoot products.

Pursuant to the Merger Agreement, Designs merged with and into Merger Sub effective April 1, 2022. Under the terms of the Merger Agreement, the Company paid to Mitchell consideration of (a) $8,200 in cash, and (b) 173,241 shares of unregistered common stock, $0.00025 par value per share, of the Company, representing approximately $9,707 (based on the April 1, 2022 closing share price of $56.03).

ApiFix Acquisition Installment Payment

On April 1, 2022, the second-year anniversary of the acquisition of ApiFix, the Company paid $3,233 in cash and issued 185,811 shares of the Company's common stock, representing $10,411 of fair value (based on the April 1, 2022 closing share price of $56.03), to fulfill its installment obligation to ApiFix. This was the first installment payment paid since the acquisition.

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

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

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

Overview

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

We sell implants 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 37 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 40 independent sales agencies employing more than 188 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, through independent stocking distributors and sales agencies. Our independent distributors manage the billing relationship with each hospital in their respective territories and are responsible for servicing the product needs of their surgeon customers. In 2017, we began to supplement our international stocking distributors with sales agencies using direct sales programs in the United Kingdom, Ireland, Australia and New Zealand where we sell directly to the

hospitals. We began selling direct to Canada in September 2018, Belgium and the Netherlands in January 2019, Italy in March 2020 and Germany, Switzerland and Austria in January 2021. Additionally, in March 2019, we established an operating company in the Netherlands in order to enhance our operations in Europe. In these markets, we work through sales agencies that are paid a commission, similar to our U.S. sales model. We expect these arrangements to generate an increase in revenue and gross margin.

We believe there are significant opportunities for us to strengthen our position in U.S. and international markets by increasing investments in consigned implant and instrument sets, strengthening our global sales and distribution infrastructure and expanding our product offering. For example, on April 1, 2022, the Company acquired MD Orthopaedics, Inc., a developer and manufacturer of a portfolio of orthopedic clubfoot products. The consideration paid by the Company included (a) $8.2 million in cash, and (b) 173,241 shares of its common stock, $0.00025 par value per share, representing approximately $9.7 million (based on the April 1, 2022 closing share price of $56.03).

Environmental, Social and Governance ("ESG") Activities

OrthoPediatrics was founded on the cause of impacting the lives of children with orthopedic conditions. Since inception we have impacted the lives of over 243,000 children. We believe we should continue to expand our social efforts while minimizing our impact to the environment and ensuring corporate governance. In 2021, we created an internal ESG team, which reports directly to our Board's Governance and Nominating Committee, to identify ESG topics for disclosure by assessing both the impact on our business and the importance to our stakeholders.

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

- OrthoPediatrics cares about our environmental impact while working in a highly regulated industry and we are certified according to ISO 13485.

- The Company and its associates regularly participate in philanthropic causes important to our local communities. We also partner with charitable organizations that provide pediatric orthopedic care around the world. In 2020 we were named as "Corporate Partner of the Year" by the World Pediatric Project - with whom we work to provide access to medical care for children in developing countries.

- We are committed to fostering an environment that is respectful, compassionate, and inclusive of everyone in our community.

- The Board of Directors understands the value of diversity and will increase the diversity of the Board over the next 18 months. The Governance and Nominating Committee engaged a global recruiting firm to assist in adding two diverse Board candidates.

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

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

Impact of COVID-19 on our Business

As a result of the COVID-19 pandemic (“COVID-19” or the “pandemic”), we have experienced significant business disruption. 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 their entirety contained in Item 1A “Risk Factors” in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 3, 2022 and in other reports filed with the SEC that discuss the risks and factors that may affect our business.

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

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, may result 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, including our short-term investments, 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.

Other Trends and Uncertainties

From time to time we acquire, make investments in or license other technologies, products and business that may enhance our capabilities, complement our current products or expand the breadth of our markets or customer base. As a result of these transactions, we may record certain intangible assets, including goodwill and trademarks, which are subject to annual impairment testing. Impairment is based on our current assessment of the expected future cash flows based on recent results and other specific market factors. Although we have not recorded any impairment charges to date, the most recently prepared assessment indicates our passing rate has narrowed for certain intangible assets. We believe that the expected future cash flows represent management's best estimate; however, if actual results differ materially from these estimates, we could record an impairment charge which could be material to our consolidated financial statements and have an adverse impact on our results of operations.

Emerging Growth Company and Smaller Reporting Company Status

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

Summary of Statements of Operations for the Three Months Ended March 31, 2022 and 2021

The following table sets forth our results of operations for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,			
	2022	2021	Increase (Decrease)	%
Net revenue	$ 23,417	$ 21,462	$ 1,955	9 %
Cost of revenue	4,851	5,137	(286)	(6)%
Sales and marketing expenses	9,758	8,949	809	9 %
General and administrative expenses	13,167	12,041	1,126	9 %
Research and development expenses	2,027	1,308	719	55 %
Other (income) expenses	3,031	4,718	(1,687)	(36)%
Provision for income taxes (benefit)	(317)	(312)	(5)	(2)%
Net loss	$ (9,100)	$ (10,379)	$ (1,279)	(12)%

Net Revenue

The following tables set forth our net revenue by geography and product category for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
Product sales by geographic location:	2022	2021
U.S.	$ 18,188	$ 16,839
International	5,229	4,623
Total	$ 23,417	$ 21,462

	Three Months Ended March 31,	
Product sales by category:	2022	2021
Trauma and deformity	$ 16,516	$ 14,552
Scoliosis	5,983	5,951
Sports medicine/other	918	959
Total	$ 23,417	$ 21,462

Net revenue increased $2.0 million, or 9%, from $21.5 million for the three months ended March 31, 2021 to $23.4 million for the three months ended March 31, 2022. The increase during the three months ended March 31, 2022 was driven primarily by non-elective trauma sales. Additionally, we continue to see the benefit of converting Germany, Austria, and Switzerland to a direct agency sales model.

Trauma and deformity sales increased $2.0 million, or 13%, during the three months ended March 31, 2022, primarily driven by strong trauma and deformity growth across numerous product lines, specifically our PNP Femur, Cannulated Screws and Orthex systems. Scoliosis sales increased $32 thousand, or 1%, during the three months ended March 31, 2022, primarily driven by increased sales of our RESPONSE 4.5/5.0 and sales of the FireFly surgical guides. Sports medicine / other decreased $41 thousand, or 4%, during the three months ended March 31, 2022, primarily driven by a decline in sales from our Telos operations. Nearly all the change in each category was due to an increase or decrease in the unit volume sold and not a result of price changes.

Cost of Revenue and Gross Margin

Cost of revenue decreased $0.3 million, or 6%, from $5.1 million for the three months ended March 31, 2021 to $4.9 million for the three months ended March 31, 2022. The decrease is due primarily to an increased gross margin rate, offset by an increase in volumes sold. Gross margin was 76% for the three months ended March 31, 2021 and 79% for the three months ended March 31, 2022. The change in gross margin is primarily driven by sales through the converted international agencies, favorable purchase price variances, and fewer scoliosis set sales to our international stocking distributors.

Sales and Marketing Expenses

Sales and marketing expenses increased $0.8 million, or 9%, to $9.8 million for the three months ended March 31, 2022 from $8.9 million for the three months ended March 31, 2021. The change in the three month period ended March 31, 2022 was due primarily to increased sales commission expenses, driven by increased unit volumes sold.

General and Administrative Expenses

General and administrative expenses increased $1.1 million, or 9%, from $12.0 million for the three months ended March 31, 2021 to $13.2 million for the three months ended March 31, 2022. The increase for the three month period ended March 31, 2022 was due primarily to the addition of personnel and resources to support the continued expansion of our business and an increase in legal and other professional service expense.

Depreciation and amortization expenses increased $0.4 million, or 17%, from $2.5 million for the three months ended March 31, 2021 to $3.0 million for the three months ended March 31, 2022. The increase for the three month period ended March 31, 2022 was primarily due to an increase in depreciation from higher set deployments and the amortization of intangible assets, including licenses which had not yet been put into the market in the first quarter 2021.

Research and Development Expenses

Research and development expenses increased $0.7 million, or 55%, from $1.3 million for the three months ended March 31, 2021 to $2.0 million for the three months ended March 31, 2022. The increase for the three month period ended March 31, 2022 was primarily due to incremental product development and the addition of personnel to support the future growth of the business.

Total Other Expenses

Other expenses were $3.0 million and $4.7 million for the three months ended March 31, 2022 and 2021, respectively, a decrease of $1.7 million or 36%. The decrease in other expense for the three months ended March 31, 2022 was primarily due to the fair value adjustment of contingent consideration, which was driven by the valuation inputs that were lower in comparison to the same period last year. The aggregate of accreted interest expense and fair value adjustments for the three months ended March 31, 2022 and 2021 were $3.0 million and $4.8 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 $4.2 million and $1.9 million for the three months ended March 31, 2022 and 2021, respectively. As of March 31, 2022, we had an accumulated deficit of $187.1 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, 2022, we had cash and cash equivalents, restricted cash and short term investments of $46.4 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,	
	2022	2021
Net cash used in operating activities	$ (4,197)	$ (1,915)
Net cash provided by (used in) investing activities	14,303	(5,607)
Net cash provided by (used in) financing activities	(33)	30
Effect of exchange rate changes on cash	241	155
Net increase (decrease) in cash	$ 10,314	$ (7,337)

Cash Used in Operating Activities

Net cash used in operating activities from continuing operations was $4.2 million and $1.9 million for the three months ended March 31, 2022 and 2021, respectively. The primary use of this cash was to fund our operations related to the development and commercialization of our products in each of these periods. Net cash used for working capital was $2.3 million for the three months ended March 31, 2022 compared to a source of $0.1 million for the three months ended March 31, 2021. During the three months ended March 31, 2022, the primary driver of working capital cash usage was the increase in inventory of $6.8 million and the offset related to trade payables of $5.3 million to support future sales growth. We also saw an increase in the use of cash from the accrued expenses of $0.7 million which was offset by a decrease in prepaid expenses.

Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2022 was $14.3 million compared to a use of cash of $5.6 million for the three months ended March 31, 2021. Net cash provided by investing activities for the three months ended March 31, 2022 consisted primarily of the sale of short-term marketable securities offset by purchases of instrument sets of $4.2 million.

Cash Provided By (Used in) Financing Activities

Net cash used in and provided by financing activities for the three months ended March 31, 2022 and 2021, respectively, was not material to the results of our operations.

Indebtedness

Loan Agreement

Effective December 31, 2021, the Company entered into a Third Amendment (the "Third Amendment") to its Fourth Amended and Restated Loan and Security Agreement with Squadron Capital LLC, or Squadron (as so amended, the “Loan Agreement”). The Loan Agreement provides a $25.0 million revolving credit facility, with interest only payments, at an annual interest rate equal to the greater of (a) six month SOFR plus 8.69% and (b) 10.0%. The Company pays Squadron an unused commitment fee in an amount equal to the per annum rate of 0.50% (computed on the basis of a year of 360 days and the actual number of days elapsed) times the daily unused portion of the revolving credit commitment. The unused commitment fee is payable quarterly in arrears. Prior to the Third Amendment, the interest rate on the facility had been equal to the greater of (a) three month LIBOR plus 8.61%, and (b) 10.0%. While the Loan Agreement previously provided for certain term loans, there are no longer any outstanding term loan obligations.

Borrowings under the revolving credit facility are 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.

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

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

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 $1.0 million and $1.0 million at March 31, 2022 and December 31, 2021, respectively.

Pediatric Orthopedic Business Seasonality

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

Critical Accounting Policies and Significant Judgments and Estimates

This management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue and expenses during the reporting periods. We monitor and analyze these items for changes in facts and circumstances, and material changes in

these estimates could occur in the future. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions.

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.

A discussion of certain of those legal proceedings is contained in Note 12 – Commitments and Contingencies (under the heading “Legal Proceedings”) of the notes to the condensed consolidated financial statements included in Item 1. Financial Statements of Part I of this quarterly report on Form 10-Q, which discussion is incorporated herein by reference.

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

ITEM 1A. RISK FACTORS

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

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

a. Sale of Unregistered Securities.

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
2.1w		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)
10.5*	+	Employment Agreement, by and between the registrant and Joseph W. Hauser, dated as of March 1, 2022
10.6w		Agreement and Plan of Merger, dated April 1, 2022, by and among OrthoPediatrics Corp., OrthoPediatrics Iowa Holdco, Inc., Mitchell Designs, Inc. ("Designs"), and John Mitchell, the sole shareholder of Designs (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on April 4, 2022) (SEC File No. 001-38242)
31.1	+	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	+	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	++	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	++	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	+	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.)
101.SCH	+	Inline XBRL Taxonomy Extension Schema Document
101.CAL	+	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	+	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	+	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	+	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104		Cover Page Interactive Data File (formatted as Inline XBRL and included in Exhibit 101)

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

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

+ Filed herewith.

++ Furnished herewith.

SIGNATURES

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

May 5, 2022

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

May 5, 2022

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

Employment Agreement

This Employment Agreement ("Agreement") is made and entered into this 1st day of March, 2022, by and between Joe Hauser ("Employee") and OrthoPediatrics Corp. ("Employer").

1. Employment.

Employer hereby employs Employee and Employee hereby accepts employment upon the terms and conditions set forth in this Agreement effective March 1, 2022.

2. Term of Agreement.

Subject to the provisions for termination hereinafter provided, the Term of this Agreement shall commence on March 1, 2022, and continue for a Term of two (2) years. Thereafter, this Agreement shall automatically renew for successive one (1) year Terms, unless notification of intent not to renew is provided in writing by either party to the other party thirty (30) days prior to the end of the Term then in effect.

3. Duties and Responsibilities.

As of March 1, 2022, and for the Term of this Agreement, Employee shall perform the duties of Senior Vice President & General Manager, Trauma & Deformity Correction. Employee shall execute and perform all duties related and necessary to his position(s) as determined by Employer. Employee agrees to abide by all by-laws, policies, practices, procedures, and rules of Employer.

Employee shall devote all of his professional time, efforts, skill and ability to the business of Employer, and shall not, during the Term of this Agreement, be engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage, unless Employee has obtained the prior written approval of Employer. Further, this Paragraph 3 shall not prevent Employee from participating in charitable or other not-for-profit activities as long as such activities do not materially interfere with Employee's work for Employer.

4. Business Opportunities.

Employee will take no action that deprives Employer of any business opportunities within the scope of Employee's existing duties and, should Employee be offered or become aware of any such opportunities, Employee shall advise Employer in writing, and Employer shall have the right of first refusal before Employee pursues such opportunity.

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5. Compensation.

Employer shall compensate Employee for services performed during the Term of this Agreement as follows:

A. Annual Salary. Employer shall pay Employee a total Annual Salary at the rate of Three Hundred, Thirty Thousand Dollars ($330,000.00) (minus all applicable deductions and withholdings, including federal, state, and local taxes, and FICA) per year, payable in accordance with Employer's normal payroll policies. Subsequent to the end of the first calendar year of this Agreement, i.e. 2022, Employer shall review the Annual Salary at a minimum of once per Term for increase consideration.

B. Bonus Eligibility. Employee shall be eligible to earn bonus compensation as determined by the Employer's Compensation Committee (the "Bonus"). Unless expressly provided otherwise in the Bonus program document, and except as otherwise provided in Section 10.B below, Employee must remain employed by Employer on the date of payment to earn and become entitled to receive payment of any such Bonus.

C. Benefits. Employee shall be entitled to all benefits provided to similarly situated full-time employees of Employer, in accordance with the terms and conditions of the benefit programs and Employer's policies, excluding any severance pay program or similar termination benefits. This currently includes, but is not limited to, paid holidays, paid vacation and health and welfare benefits. Employee understands and agrees that all benefits are subject to change from time to time at the sole discretion of Employer.

6. Expense Reimbursement.

Employer shall reimburse Employee for all reasonable out-of-pocket expenses that are incurred by Employee in providing services to Employer hereunder; provided, however, that Employee provides Employer with reasonable documentation necessary to support such expenses. All expense reimbursement shall be paid to Employee consistent with Employer's expense reimbursement policy, in effect from time to time.

7. Confidential Information and Return of Property.

Employee acknowledges that in the course of his employment with Employer, he will occupy a position of trust and confidence and will have access to and may develop Confidential Information of actual or potential value to, or otherwise useful to, Employer. "Confidential Information" means information that the Employer owns or possesses, that it uses or is potentially useful in its business, that it treats as proprietary, private or confidential, and that is not generally known to the public, including, but not limited to, trade secrets (as defined by the Indiana Trade Secrets Act, Ind. Code sec. 24-2-3-1, *et. seq.*), information relating to the

Employer's business plans, financial condition, operating and other costs, sales, pricing, marketing, ideas, research records, plans for service improvements and development, lists of actual or potential customers, actual and potential customer usage and requirements, customer records, lists of referral sources, referral source records, information on product and product development, inventions, trade secrets, and any other information which derives independent economic value, either actual or potential. Information supplied to Employee from outside sources and/or third parties will also be presumed to be Confidential Information unless and until Employer designates it otherwise.

Employee agrees to use Confidential Information solely in the course of his duties as an employee of Employer and in furtherance of Employer's business. Employee hereby further agrees that the above-referenced information will be kept confidential at all times during the Term of this Agreement and thereafter, that he will not disclose or communicate to any third party any of the Confidential Information and will not make use of the Confidential Information on his own behalf or on the behalf of a third party.

Employee agrees that all Confidential Information is and shall remain the exclusive property of Employer. Employee agrees to return to Employer on or before Employee's termination of employment with Employer all Employer property, information and documents, including and without limitation, all reports, files, memoranda, records, software, hardware, credit cards, keys, computer access codes or disks, instruction or operational manuals, handbooks or manuals, written financial information, business plans or other physical and personal property which Employee received or prepared or helped prepare in connection with his employment with Employer; and Employee agrees that he will not retain any copies, duplicates, reproductions or excerpts thereof.

8. Restrictive Covenant.

Employee acknowledges and agrees that in consideration of Employee signing this Agreement and agreeing to its provisions, including the provisions set forth in this Section 8, Employer is paying Employee severance benefits upon termination by Employer without Cause pursuant to Section 10B hereof. Employee also acknowledges and agrees that such consideration is (a) adequate consideration to support the restrictive covenant set forth herein, (b) different from and in addition to any payment or benefits that Employee already was receiving or had any preexisting right to receive, and (c) consideration that Employee would not receive or have any right to receive if Employee were to choose not to sign this Agreement. Employee acknowledges that during his employment with Employer, Employee will have extensive access to Employer's Confidential Information and may develop business relationships with Employer's customers. As a result of the extensive access to Confidential Information and the development of business relationships, Employee agrees that during the Term of this Agreement, and for a period of one (1) year from the date of Employee's termination of employment, Employee shall not, without the prior written consent of Employer, directly or indirectly, for himself or on behalf of any other person, entity or vendor:

A. Employ, solicit, contact, or communicate with, for the purpose of hiring, employing or engaging, any individual who is an employee, commissioned agent, or independent contractor of Employer, or who has been, within the twelve (12) month period immediately preceding Employee's termination of employment.

B. Compete with Employer by participating in any manner in the provision of the business Employee conducted on behalf of Employer, including, but not limited to, the design, manufacture or marketing of orthopedic products for children, for any entity or company, or establish a financial interest in (as an owner, stockholder, partner, lender, or other investor, director, officer, employee, independent contractor, consultant, agent or otherwise) any entity or company, which is in direct or indirect competition with the business interests of Employer with respect to the design, manufacture or marketing of orthopedic products for children, to the extent such entity or company operates within the geographical area:

1. Where Employer (a) conducts its business activity on the date of Employee's termination, or (b) contemplated conducting its business activity at any time during the twelve (12) month period immediately preceding Employee's termination of employment; and

2. Where Employee (a) did business on behalf of Employer at the time of Employee's termination of employment, or at any time during the twelve (12) month period immediately preceding Employee's termination of employment, or (b) which Employee had access to any Confidential Information regarding.

C. Contact, canvas, solicit, or accept business with respect to the sale, design, manufacture or marketing of orthopedic products for children from any Customer or Potential Customer of Employer if such business would be of the type then being carried on by Employer and which was performed by Employee on behalf of Employer.

D. Induce, cause, advise, or otherwise influence any Customer or Potential Customer of Employer to cease doing business with Employer.

The term "Customer" as used herein shall refer to any entity or company: (1) who Employer provides services or products to at the time of Employee's termination of employment or at any time during the twelve (12) month period immediately preceding Employee's termination of employment; and (2) which Employee did business with on behalf of Employer at the time of Employee's termination of employment or at any time during the twelve (12) month period immediately preceding Employee's termination of employment, or which Employee had access to any Confidential Information regarding.

The term "Potential Customer" as used herein shall refer to any entity or company: (1) who Employer has solicited, approached, or contracted concerning the possibility of doing business at the time of Employee's termination of employment or at any time during the twelve (12) month period immediately preceding Employee's termination of employment; and (2) which Employee

was involved in any such solicitation, approach or contact, or which Employee had access to any Confidential Information regarding.

Employee acknowledges and agrees that the restricted period of time, the geographical scope, and the definitions of "Customer" and "Potential Customer" as used in this Paragraph 8 are reasonable.

9. Breach of Agreement.

A. Employee acknowledges that any breach of Paragraphs 7 or 8 of this Agreement, including all subparagraphs thereof, by Employee may cause irreparable damage to Employer and that the legal remedies available to Employer will be inadequate. Therefore, in the event of any threatened or actual breach of Paragraphs 7 or 8 of this Agreement by Employee, Employee agrees that Employer shall be entitled to specific enforcement of this Agreement through injunctive or other equitable relief in addition to legal remedies, without the need for posting bond. If Employee is found, by a court of competent jurisdiction, to have breached any of the terms of Paragraphs 7 or 8 of this Agreement, Employee agrees to pay Employer reasonable attorney's fees and costs incurred in seeking relief from Employee's breach of Paragraphs 7 or 8 of this Agreement, including all subparagraphs thereof. Further, the restricted periods of time in Paragraph 8 of this Agreement shall be extended by one additional day for each day a court of competent jurisdiction finds Employee to have been in breach of Paragraph 8 of this Agreement.

B. Employee and Employer hereby submit to the jurisdiction and venue of the Marion County, Indiana Courts and the United States District Court for the Southern District of Indiana, as applicable, in any cause of action, claim, controversy, or dispute arising out of or relating to this Agreement or the breach thereof, including those identified in Paragraph 9.A of this Agreement, and hereby **waive any right to a jury trial**.

10. Termination and Severance Benefits.

A. Termination by Employer for Cause or Resignation by Employee without Good Reason, or due to Employee's Death or Disability. The Term and Employee's employment hereunder may be terminated by Employer for Cause and shall terminate automatically upon Employee's resignation without Good Reason; *provided*, *that* Employee will be required to give Employer at least thirty (30) days' advance written notice of a resignation without Good Reason. In addition, the Term and Employee's employment hereunder may be terminated by Employer upon the Employee's Disability, and shall terminate automatically upon Employee's death (for purposes of clarity, Employee and Employer acknowledge and agree that a termination due to Disability or death shall not constitute a termination without Cause for purposes of Paragraph 10.B below). Upon termination for Cause or resignation without Good Reason, or termination due to Disability or death, Employee shall only receive the portion of his Annual Salary earned through the

Termination Date and such employee benefits, if any, as to which Employee may be entitled under the terms of the applicable plans (the amounts of Annual Salary and any such employee benefits being referred to as "Accrued Compensation"). For the purposes of this Agreement, "Termination Date" shall mean the actual date that Employee's employment with the Employer and its affiliates terminates for any reason.

As used in this Agreement "Cause" exists in the event of:

1. An act or omission by the Employee that constitutes deliberate or willful misconduct, a breach of fiduciary trust for the purpose of gaining a personal profit, or a violation of any law, rule or regulation;

2. An act or omission by the Employee that materially and adversely affects the best interests of the Employer;

3. An act or omission by the Employee that, under the circumstances, would make it unreasonable to expect Employer to continue to employ the Employee, including without limitation, (i) the commission of any crime (other than minor vehicular violations), (ii) the commission or attempted commission of any act of fraud, embezzlement, neglect or negligence in the performance of Employee's duties or (iii) any act of malfeasance, substance abuse, sexual harassment, discrimination, or moral turpitude that, in Employer's reasonable judgment, reflects adversely on the reputation of Employer;

4. Material breach of any provision of this Agreement by Employee; or

5. Willful and continued failure to perform substantially Employee's duties if such failure continues for a period of thirty (30) calendar days after Employer delivers to Employee a written demand for substantial performance, specifically identifying in such written demand the manner in which Employee has not substantially performed his duties.

As used in this Agreement, "Disability" shall mean that Employee, because of accident, disability, or physical or mental illness, is incapable of performing Employee's duties to Employer or any affiliate, as determined by the Employer. Notwithstanding the foregoing, Employee will be deemed to have become incapable of performing Employee's duties to Employer or any affiliate if (A) Employee is incapable of so doing for (1) a continuous period of ninety (90) days and remains so incapable at the end of such ninety (90) day period or (2) periods amounting in the aggregate to ninety (90) days within any one period of one hundred twenty (120) days and remains so incapable at the end of such aggregate period of one hundred twenty
(120) days, (B) Employee qualifies to receive long-term disability payments under the long-term disability insurance program, as it may be amended from time to time, covering employees of Employer or an affiliate to which the Employee provides

services or (C) Employee is determined to be totally disabled by the Social Security Administration.

B. Termination by Employer without Cause. Employer may immediately terminate Employee's employment without Cause. If, during the Term of this Agreement, Employee's employment is terminated by Employer without Cause (other than due to death or Disability), including if Employer declines to renew the Term of the Agreement, then Employee shall be entitled to receive the Accrued Compensation. In addition, subject to Employee's continuing compliance with the covenants contained in Paragraphs 7 and 8 of this Agreement and any other similar applicable restrictive covenants with Employer or an affiliate, and the execution by Employee of a binding general waiver and release of claims in a form acceptable to Employer (the "Release") within the time period specified by Employer at the time of the Termination Date (which shall be no longer than 50 days after the Termination Date) and the expiration of any applicable revocation period with respect to the Release, if Employee's employment terminates pursuant to this Paragraph 10.B, then Employee shall be entitled to receive:

1. Payment of the Bonus, if any, that was earned by Employee in any fiscal year ending prior to the Termination Date but remains unpaid as of the Termination Date, payable in a lump sum within seventy (70) days after the Termination Date.

2. A pro-rated Bonus, if any, upon the satisfaction of any pre-established performance objectives at the end of the applicable bonus performance period; such payable pro-rata portion of the Bonus shall be determined by multiplying the Bonus amount by a fraction equal to the number of days of Employee's employment during such applicable performance period divided by the total number of days in the applicable performance period. Payment of any pro- rated Bonus under this paragraph shall be made in the calendar year following the year in which the services were performed, when bonuses are generally paid to similarly situated employees.

3. An amount equal to twelve (12) months of the Employee's then-current Annual Salary, payable in twelve (12) substantially equal monthly installments commencing with the first regular payroll period following the expiration of any applicable revocation period with respect to the Release, and in any event, if at all, within seventy (70) days after the Termination Date.

4. Provided that Employee elects, and to the extent that he is and remains eligible for, continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA") and Employer's group health plan, payment of that part of the COBRA premiums for such continued coverage of Employee (and, if applicable as of the Termination Date, his dependents) that exceeds the amount that Employee would pay for such coverage if he were an active employee of Employer ("COBRA Subsidies"), starting on the first day

following the date on which Employee's coverage under that plan as an active employee of Employer ends, and ending on the earlier of (A) the date that twelve (12) months of such COBRA Subsidies have been paid, or (B) the date on which Employee's right to continuation coverage under COBRA ends. Employee agrees and acknowledges that for so long as Employee is covered by COBRA and receiving severance payments under Paragraph 10.B.3, the amount that Employee would pay for coverage under Employer's group health plan if he were an active employee of Employer shall be deducted from such severance payments, and that this coverage under Employer's group health plan shall run concurrently with such plan's obligation to provide continuation coverage pursuant to COBRA. Employee further agrees and understands that this paragraph shall not limit such plan's obligation to provide continuation coverage under COBRA.

C. Resignation for Good Reason. If, during the Term of this Agreement, Employee resigns from his employment with the Employer and its affiliates for Good Reason in accordance with the requirements of this Paragraph 10.C, then he shall become entitled to the Accrued Compensation. In addition, subject to Employee's continuing compliance with the covenants contained in Paragraphs 7 and 8 of this Agreement and any other similar applicable restrictive covenants with Employer or an affiliate, and the execution by Employee of Release within the time period specified by Employer at the time of the Termination Date (which shall be no longer than 50 days after the Termination Date) and the expiration of any applicable revocation period with respect to the Release, then Employee shall become entitled to receive the same severance benefits set forth in Paragraph 10.B, subject to the same terms and conditions set forth therein. Employee agrees that before Employee resigns for Good Reason, Employee must give Employer 30 days' advance written notice of the reason(s) therefor. For purposes of this Agreement, "Good Reason" constitutes the happening of any of the following, without the consent of Employee:

1. Material breach of any provision of this Agreement by Employer;

2. The assignment to Employee of duties inconsistent with Employee's position as Senior Vice President & General Manager, Trauma & Deformity Correction (including his removal from the Executive Management Committee) or any other action by Employer which results in a material diminution in such position, authority, duties, or responsibilities, excluding an isolated, insubstantial action not taken in bad faith;

3. The material reduction of Employee's Annual Salary or Bonus or any other action by Employer which results in a material reduction of Employee's annual compensation; or

4. Employer requiring Employee to be based in a city other than where Employee resides.

Notwithstanding the foregoing or any provision to the contrary, Good Reason shall not be deemed to exist unless the notice of termination on account thereof is given to Employer no later than thirty (30) days after the time at which the event or condition purportedly giving rise to Good Reason first occurs or arises; and, provided, that if there exists an event or condition that constitutes Good Reason, Employer shall have thirty (30) days from the date notice of such a termination is given to cure such event or condition and, if Employer does so, such event or condition shall not constitute Good Reason for purposes of this Agreement.

D. Stock Incentive Plan Awards. Upon Employee's termination of employment, the treatment of all Awards (as that term is defined in Employer's Stock Incentive Plan (the "Plan")) granted to Employee while employed by Employer will be determined in accordance with the Plan.

11. Employee Work Product.

Employee agrees that any invention, enhancement, process, method, design and any other creation (hereinafter "Product") that Employee may develop, invent, discover, conceive or originate, alone or in conjunction with any other person during business hours or on behalf of Employer, during Employee's employment that relates to the business of Employer now or hereafter carried on by it, or to the use of any product involved therein, shall be the exclusive property of Employer. Employee understands and agrees that in partial consideration of Employee's employment and for the compensation received, and for continued employment per this Agreement, all such Products shall be the exclusive property of Employer and, thus, subject to patent, copyright, registration or other legal protective custody of Employer.

Employer shall have the authority and this instrument shall operate: (1) to give Employer authority to execute, sell and deliver as the act of Employee, any license agreement, contract, assignment or other instrument in writing that may be necessary or proper with respect to the Product; and (2) to convey to Employer the entire right, title and interest to any such Product. Employee further agrees to hold Employer and its assigns harmless by reason of Employer's acts pursuant to this Paragraph 11. Employee further agrees that, during his/her employment and any time thereafter, Employee shall cooperate with Employer and its counsel in the prosecution and/or defense of any litigation that may arise in connection with any Product referred to in this Paragraph 11.

12. Choice of Law.

This Agreement shall be interpreted, construed, and governed by the laws of the State of Indiana, regardless of the place of execution or performance.

13. Entire Agreement

This Agreement contains the entire agreement of the parties and supersedes any prior agreements between the parties. This Agreement may not be changed orally, but only by an

agreement in writing signed by the party against whom enforcement of any waiver, change, modification, extension, or discharge is sought.

14. Severability.

If any provision of this Agreement shall be held by a court of competent jurisdiction to be contrary to law or public policy, the remaining provisions shall remain in full force and effect. It is the intention and desire of the parties that the court treat any provisions of this Agreement which are not fully enforceable as having been modified to the minimum extent deemed necessary by the court to render them reasonable and enforceable and that the court enforce them to such extent.

15. Survival.

This Agreement and the covenants and restrictions contained therein shall survive the termination of this Agreement and/or the termination of Employee's employment with Employer.

16. Notice.

Any notices, requests, demands, or other communications provided for by this Agreement shall be sufficient if in writing and if (i) delivered by hand to the other party; (ii) sent by facsimile communication with appropriate confirmation of delivery; (iii) sent by registered or certified United States Mail, return receipt requested, with all postage prepaid; or (iv) sent by recognized commercial express courier services, with all delivery charged prepaid; and addressed as follows:

If to Employer: OrthoPediatrics Corp. Attn: General Counsel
2850 Frontier Drive
Warsaw, Indiana 46582

If to Employee: Joe Hauser
6428 Ridgeline Dr.
Hudson, Ohio 44236

17. Section 409A.

Notwithstanding any provisions herein to the contrary, to the maximum extent permitted by applicable law, amounts payable to Employee pursuant to Paragraph 10.B and 10.C shall be made in reliance upon Treas. Reg. Section 1.409A-1(b)(9) (Separation Pay Plans) or Treas. Reg. Section 1.409A-1(b)(4) (Short-Term Deferrals), as applicable. For this purpose, each payment shall be considered a separate and distinct payment. However, to the extent any such payments are treated as nonqualified deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), then (i) if

the 70-day payment period set forth under Paragraph 10.B.1 and 3 commences in one taxable year and ends in another, then payments will not commence until the second taxable year, and (ii) if the Employee is deemed at the time of his separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, then to the extent delayed commencement of any portion of the compensation or benefits to which Employee is entitled under this Agreement is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such portion of Employee's compensation or benefits shall not be provided to Employee prior to the earlier of (x) the first business day of the seventh month measured from the date of the Employee's "separation from service" or (y) the date of Employee's death. Upon the earlier of such dates, all payments deferred pursuant to this Paragraph 17 shall be paid in a lump sum to Employee, and any remaining payments due under the Agreement shall be paid as otherwise provided herein.

In addition, any reimbursements made or in-kind benefits provided under this Agreement shall be made in accordance with then-current Employer policy, but to the extent such reimbursements or in-kind benefits constitute nonqualified deferred compensation subject to Section 409A, then in no event shall any reimbursements be made later than the end of the calendar year following the year in which the expense was incurred, the amounts eligible for reimbursement or in-kind benefits provided in one year shall not affect the amounts eligible for reimbursement or in-kind benefits to be provided in any subsequent year, and the right to reimbursements or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

The parties acknowledge and agree that, to the extent applicable, this Agreement shall be interpreted in accordance with Section 409A of the Code and the regulations and other interpretive guidance issued thereunder. Employee shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on Employee or for his account in connection with this Agreement (including any taxes and penalties under Code Section 409A), and neither Employer nor any of its subsidiaries or affiliates shall have any obligation to indemnify or otherwise hold Employee harmless from any or all of such taxes or penalties. Employer makes no representations concerning the tax consequences of Employee's participation in this Agreement under any Federal, state or local law.

18. Acknowledgement.

Employee represents and acknowledges that Employee has had adequate time to review this Agreement, Employee has had the opportunity to ask questions and receive answers from Employer regarding this Agreement, and Employee has had the opportunity to consult with legal advisors of his choice concerning the terms and conditions of this Agreement.

This Agreement is intended to supersede and replace all prior agreements, understandings and arrangements between or among Employer, or any agent thereof, and the Employee, or any agent thereof, relating to the employment of Employee.

for Dr Daniel Gerritzen

IN WITNESS WHEREOF, the parties hereto have voluntarily executed this Agreement as of the day and year first above written. This Agreement may be executed in multiple counterparts and each of which when taken together shall constitute one and the same instrument. One or more counterparts of this Agreement may be delivered via facsimile transmission or electronic mail with the intention that they shall have the same effect as an original executed Agreement.

"EMPLOYER" ORTHOPEDIATRICS CORP.

By:

Daniel Gerritzen

(Printed)

"EMPLOYEE"
Joe Hauser

Joe Hauser 3.10.22

(Printed)

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

I, David R. Bailey, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 5, 2022

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

I, Fred L. Hite, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Date: May 5, 2022

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

In connection with the Quarterly Report on Form 10-Q of OrthoPediatrics Corp. (the "Company") for the quarterly period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, David R. Bailey, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

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

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

Date: May 5, 2022

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

In connection with the Quarterly Report on Form 10-Q of OrthoPediatrics Corp. (the "Company") for the quarterly period ended March 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Fred L. Hite, Chief Financial Officer and Chief Operating Officer of the Company, hereby certifies, pursuant to 18 Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

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

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

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

Date: May 5, 2022