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 June 30, 2023

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 July 28, 2023, the registrant had 23,351,596 outstanding shares of common stock, $0.00025 par value per share.

OrthoPediatrics Corp.
Form 10-Q
For the Quarterly Period Ended June 30, 2023

TABLE OF CONTENTS

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 widespread health emergencies, such as COVID-19 and respiratory syncytial virus, 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 1, 2023 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)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,713	$ 8,991
Restricted cash	1,596	1,471
Short-term investments	83,472	109,299
Accounts receivable - trade, net of allowances of $1,097 and $1,056, respectively	33,849	24,800
Inventories, net	90,983	78,192
Prepaid expenses and other current assets	3,642	3,966
Total current assets	223,255	226,719
Property and equipment, net	40,071	34,286
Other assets:		
Amortizable intangible assets, net	71,932	64,980
Goodwill	82,911	86,821
Other intangible assets	16,087	14,921
Other non-current assets	614	—
Total other assets	171,544	166,722
Total assets	$ 434,870	$ 427,727
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	$ 20,890	$ 11,150
Accrued compensation and benefits	8,159	6,744
Current portion of long-term debt with affiliate	148	144
Current portion of acquisition installment payable	9,713	7,815
Other current liabilities	5,401	5,018
Total current liabilities	44,311	30,871
Long-term liabilities:		
Long-term debt with affiliate, net of current portion	688	763
Acquisition installment payable, net of current portion	3,427	8,019
Contingent consideration	6	2,980
Deferred income taxes	5,564	5,954
Other long-term liabilities	562	492
Total long-term liabilities	10,247	18,208
Total liabilities	54,558	49,079
Stockholders' equity:		
Common stock, $0.00025 par value; 50,000,000 shares authorized; 23,340,463 shares and 22,877,962 shares issued as of June 30, 2023 and December 31, 2022, respectively	6	6
Additional paid-in capital	574,677	560,810
Accumulated deficit	(186,460)	(176,768)
Accumulated other comprehensive loss	(7,911)	(5,400)
Total stockholders' equity	380,312	378,648
Total liabilities and stockholders' equity	$ 434,870	$ 427,727

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net revenue	$ 39,559	$ 32,928	$ 71,147	$ 56,345
Cost of revenue	9,534	7,947	17,561	12,798
Gross profit	30,025	24,981	53,586	43,547
Operating expenses:				
Sales and marketing	13,165	12,431	25,381	22,189
General and administrative	19,654	14,546	37,320	27,713
Research and development	2,792	1,747	5,062	3,774
Total operating expenses	35,611	28,724	67,763	53,676
Operating loss	(5,586)	(3,743)	(14,177)	(10,129)
Other (income) expenses:				
Interest expense	294	1,212	84	1,777
Fair value adjustment of contingent consideration	(2,304)	(5,010)	(2,974)	(2,440)
Other (income) loss	(289)	827	(620)	723
Total other (income) expenses	(2,299)	(2,971)	(3,510)	60
Loss before income taxes	$ (3,287)	$ (772)	$ (10,667)	$ (10,189)
Provision for income taxes (benefit)	(401)	(439)	(975)	(756)
Net loss	$ (2,886)	$ (333)	$ (9,692)	$ (9,433)
Weighted average common stock - basic and diluted	22,704,723	19,792,286	22,587,022	19,693,216
Net loss per share - basic and diluted	$ (0.13)	$ (0.02)	$ (0.43)	$ (0.48)

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (2,886)	$ (333)	$ (9,692)	$ (9,433)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,858)	(9,299)	(2,820)	(11,497)
Unrealized gain (loss) on short-term investments	(7)	(125)	610	(678)
Adjustment for realized (gain) loss on securities	—	—	(301)	—
Other comprehensive loss, net of tax	(1,865)	(9,424)	(2,511)	(12,175)
Comprehensive loss	$ (4,751)	$ (9,757)	$ (12,203)	$ (21,608)

See notes to condensed consolidated financial statements.

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

Three and Six Months Ended June 30, 2023

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Value	Capital	Deficit	Loss	Equity
Balance at January 1, 2023	22,877,962	$ 6	$ 560,810	$ (176,768)	$ (5,400)	$ 378,648
Net loss	—	—	—	(6,806)	—	(6,806)
Other comprehensive loss	—	—	—	—	(646)	(646)
Restricted stock	264,156	—	1,959	—	—	1,959
Balance at March 31, 2023	23,142,118	$ 6	$ 562,769	$ (183,574)	$ (6,046)	$ 373,155
Net loss	—	—	—	(2,886)	—	(2,886)
Other comprehensive loss	—	—	—	—	(1,865)	(1,865)
Consideration for MedTech acquisition	43,751	—	2,274	—	—	2,274
Stock portion of ApiFix anniversary installment	140,003	—	6,178	—	—	6,178
Restricted stock	14,591	—	3,456	—	—	3,456
Balance at June 30, 2023	23,340,463	$ 6	$ 574,677	$ (186,460)	$ (7,911)	$ 380,312

See notes to condensed consolidated financial statements.

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

	Three and Six Months Ended June 30, 2022					
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Value				
Balance at January 1, 2022	19,677,214	$ 5	$ 394,899	$ (178,026)	$ 8,491	$ 225,369
Net loss	—	—	—	(9,100)	—	(9,100)
Other comprehensive loss	—	—	—	—	(2,751)	(2,751)
Restricted stock	144,084	—	1,526	—	—	1,526
Balance at March 31, 2022	19,821,298	$ 5	$ 396,425	$ (187,126)	$ 5,740	$ 215,044
Net loss	—	—	—	(333)	—	(333)
Other comprehensive loss	—	—	—	—	(9,424)	(9,424)
Stock option exercise	1,340	—	42	—	—	42
Restricted stock	57,180	—	1,770	—	—	1,770
Consideration for MD Ortho acquisition	173,241	—	9,707	—	—	9,707
Stock portion of ApiFix anniversary installment	185,811	—	10,410	—	—	10,410
Balance at June 30, 2022	20,238,870	$ 5	$ 418,354	$ (187,459)	$ (3,684)	$ 227,216

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2023	2022
OPERATING ACTIVITIES		
Net loss	$ (9,692)	$ (9,433)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,928	6,292
Stock-based compensation	5,415	3,296
Fair value adjustment of contingent consideration	(2,974)	(2,440)
Accretion of acquisition installment payable	812	1,545
Deferred income taxes	(975)	(756)
Changes in certain operating assets and liabilities:		
Accounts receivable - trade	(8,964)	(6,614)
Inventories	(11,860)	(10,905)
Prepaid expenses and other current assets	72	557
Accounts payable - trade	9,724	5,298
Accrued expenses and other liabilities	1,325	1,133
Other	(1,645)	(340)
Net cash used in operating activities	(10,834)	(12,367)
INVESTING ACTIVITIES		
Acquisition of MD Ortho, net of cash acquired	—	(8,360)
Acquisition of MedTech	(3,097)	—
Sale of short-term marketable securities	72,347	31,600
Purchase of short-term marketable securities	(44,600)	—
Purchases of property and equipment	(10,563)	(9,465)
Net cash provided by investing activities	14,087	13,775
FINANCING ACTIVITIES		
Proceeds from issuance of debt with affiliate	—	31,000
Installment payment for ApiFix	(2,000)	(3,234)
Proceeds from exercise of stock options	—	42
Payments on mortgage notes	(71)	(67)
Net cash (used in) provided by financing activities	(2,071)	27,741
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(335)	400
NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	847	29,549
Cash, cash equivalents and restricted cash, beginning of year	$ 10,462	$ 9,006
Cash, cash equivalents and restricted cash, end of period	$ 11,309	$ 38,555
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 11	$ 60
Transfer of instruments between property and equipment and inventory	$ 367	$ (130)
Issuance of common shares to acquire MD Ortho	$ —	$ 9,707
Issuance of common shares for ApiFix installment	$ 6,178	$ 10,410
Issuance of common shares to acquire MedTech	$ 2,274	$ —
Right-of-use assets obtained in exchange for lease liabilities	$ 293	$ 116

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 Duo®, Pediatric Nailing Platform | Femur, Devise Rail, Orthex®, The Fassier-Duval Telescopic Intramedullary System®, ApiFix® Mid-C System and Mitchell Ponseti® specialized bracing products 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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of OrthoPediatrics Corp. and its wholly-owned subsidiaries (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 financial statements are unaudited and should be read in conjunction with the annual consolidated financial statements as of and for the year ended December 31, 2022 and related notes thereto contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 1, 2023. 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, 2022 and, in management’s opinion, include all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the financial statements for the interim periods. The results of operations for the three and six months ended June 30, 2023 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 $186,460 and $176,768 as of June 30, 2023 and December 31, 2022, respectively. Management continues to monitor cash flows and liquidity on a regular basis. We believe that our cash balance, including short-term investments, at June 30, 2023 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.

Significant Accounting Policies

There have been no changes in the Company's significant accounting polices as disclosed in Note 2 to the audited consolidated financial statements included in the 2022 Annual Report on Form 10-K, except as disclosed below.

Financial Instruments and Concentration of Credit Risk

Financial instruments that could subject the Company to credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. We consider all highly liquid investments with original maturity of three months or less at inception to be cash equivalents.The Company performs ongoing credit evaluations of customers and and maintains a reserve for expected credit losses. The Company believes the risk of credit losses associated with accounts receivable is low given the history of collections and customer base. Additionally, the Company considers the risk for credit losses associated with short-term investments to be low given the types of investments which primarily include Certificates of Deposits and Treasury Bonds.

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13 "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*". The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financials assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. This applies to the Company when trade receivables are recorded. At that point in time, they become subject to the new credit loss model and estimates of expected credit losses on trade receivables over their contractual life will be required to be recorded at inception. Additionally, to the extent that any of the securities investments classified as available-for-sale are in an unrealized loss position, the Company will also be required record an estimate, if any, of those losses driven by credit losses. The Company adopted ASU 2016-16 effective January 1, 2023. The adoption is on a prospective basis and did not have a material impact to the result of operations.

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 ASU 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 ASU 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 ASU 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 ASU 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 ASU 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 adopted ASU 2021-08 effective January 1, 2023 prospectively, resulting in no material impacts to the condensed consolidated financial statements.

NOTE 3 - BUSINESS COMBINATIONS AND ASSET ACQUISITIONS

Medtech Concepts LLC

On May 1, 2023, the Company purchased all of the issued and outstanding membership interest of Medtech Concepts LLC, a Delaware limited liability company (“MedTech”). MedTech has developed an early-stage, pre-commercial enabling technology platform designed to increase efficiency in the perioperative environment. The solution combines hardware, software, and data analytics to help streamline operative care and support better decision making in the operating room. In the future, the Company believes this enabling technology platform will provide valuable intraoperative resources for surgeons that will improve decision making, drive operating room efficiency, and ultimately improve healthcare for children. The Company also expects that the acquisition will further support future market share gains for its implant systems, similar to what the Company has experienced with the FIREFLY® Technology and the 7D Surgical FLASH™ Navigation platform. The Company does not anticipate material revenue contributions from the platform in 2023.

The sellers of MedTech are being paid a purchase price of approximately $15,274 in the following manner: (i) cash in the aggregate amount of $3,000 was paid on May 1, 2023, the transaction closing date (the “Closing Date”); (ii) 43,751 unregistered shares of the Company’s common stock, par value $0.00025 per share, representing approximately $2,274 (based on a closing share price of $51.98 on May 1, 2023), were issued on the Closing Date; and (iii) an aggregate of $2,500 payable 50% in cash and 50% in shares of unregistered common stock, will be paid on each of the first four anniversaries of the Closing Date, all subject to the conditions set forth in the Membership Interest Purchase Agreement (the "Purchase Agreement"), as amended, relating to the transaction.

The Company concluded that the business acquired did not comprise an integrated set of activities that meet the definition of a business and therefore did not result in the acquisition of a business. Instead, the Company accounted for the transaction as an asset acquisition for accounting purposes.

Under the Purchase Agreement, a number of future payments in the form of common stock are contingent on continued service through each applicable payment anniversary date. As such, these amounts have been excluded from measuring the cost of the acquisition. The result is $4,500 of stock compensation which will be recognized on a straight-line basis over the four year service period. Future cash payments and stock issuances that are not contingent on continuous service are included in the calculation of consideration. The total consideration is $10,043 after discounting the future guaranteed fixed payments

to their present value. Additionally, since this was treated as an asset acquisition, the Company included $97 of transaction costs in the total consideration. The table below reconciles the payments and issuances to total consideration transferred after discounting the future payments to present value.

	Consideration	Present Value
Cash consideration	$ 3,000	$ 3,000
Issuance of common stock	2,274	2,274
Anniversary payments	5,500	4,672
Transaction costs	97	97
Total consideration transferred	$ 10,871	$ 10,043

As result of this asset acquisition, the Company recorded a trademark asset in the amount of $520 with an indefinite useful life and an intellectual property asset relating to software acquired of $9,523 which will be amortized over a useful life of ten years.

Kevin Unger, a member of the Company's Board of Directors (the "Board") through April 28, 2023, was one of the sellers in the transaction. As a result, the Board formed a special committee comprised of independent and disinterested directors (the "Special Committee") with the exclusive authority to review, evaluate, and negotiate, or reject, the potential MedTech acquisition. The Purchase Agreement and the transactions contemplated thereby were approved by both the Special Committee and the full Board (with Mr. Unger abstaining).

Pega Medical

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

The Company acquired Pega Medical for approximately $32,045, comprised of $32,042 in cash and $3 in stock, representing the repurchase right price to be paid by the Company in the event a selling shareholder leaves employment with Pega Medical for certain reasons during the three-year period following the closing. Approximately $1,052 of the cash consideration was deposited into escrow and will be held for a period of up to eighteen (18) months to cover certain indemnification obligations of the selling shareholders of Pega Medical. Final purchase consideration is subject to certain working capital adjustments yet to be finalized. Additionally, 34,899 shares of unregistered common stock, $0.00025 par value per share, of the Company, representing approximately $1,497 (based on the July 1, 2022 closing share price of $42.90) were issued to the selling shareholders. The common stock issued to the selling shareholders, excluding the value attributable to the repurchase right, is not considered part of the purchase consideration and is subject to a repurchase right previously mentioned. The Company will recognize expense over the three-year service period at which point the right to repurchase will expire. In the event the repurchase right is triggered, the Company will have the right to repurchase the shares of common stock issued to such selling shareholder at a price of $0.10 per share. As of June 30, 2023, 23,266 of these shares were still subject to the repurchase feature. Pursuant to the terms of the transaction, the Company also issued $499 in restricted stock units to employees of Pega Medical, which are subject to an approximate three-year vesting schedule. The restricted stock units are not considered part of the purchase consideration.

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

Fair value of estimated total acquisition consideration	$	32,045
Assets		
Cash		312
Accounts receivable - trade		2,100
Inventories		4,875
Prepaid expenses and other current assets		538
Property and equipment		582
Amortizable intangible assets		12,286
Other intangible assets		3,878
Total assets		24,571
Liabilities		
Accounts payable-trade		1,682
Other current liabilities		1,509
Deferred tax liability		4,035
Total liabilities		7,226
Less: total net assets		17,345
Goodwill	$	14,700

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

	Amount		Remaining Economic Useful Life
Trademarks / Names	$	3,878	Indefinite
Patents		3,545	10 years
Customer Relationships & Other		8,741	15 years
	$	16,164	

The fair value estimates and purchase price allocation included above are preliminary while the Company finalizes certain working capital components. For the three and six month periods ended June 30, 2023, the Company recorded measurement period adjustments. The adjustments were primarily the result of updated valuations of the intangible assets and updated estimates of certain liabilities and assets. The adjustment to the intangible assets also resulted in an adjustment to the deferred tax liability. Additionally, the increase in the value of intangible assets resulted in additional amortization expense of approximately $101 for the six months ended June 30, 2023. Goodwill declined as a net result of these adjustments.

MD Orthopaedics

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

Under the terms of the related merger agreement, the Company paid to the indirect, sole shareholder of MD Ortho consideration of (a) $8,781 in cash, after adjusting for closing net working capital, and (b) 173,241 shares of unregistered common stock, $0.00025 par value per share, of the Company, representing approximately $9,707 (based on the April 1, 2022 closing share price of $56.03).

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

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

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

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

The following table represents the pro forma net revenue and net loss assuming the acquisitions of MD Ortho and Pega Medical occurred on January 1, 2022.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net revenue	$ 39,559	$ 35,091	$ 71,147	$ 62,954
Net loss	$ (2,886)	$ (112)	$ (9,692)	$ (9,099)

NOTE 4 - GOODWILL AND INTANGIBLE ASSETS

Goodwill

Changes in the carrying amount of goodwill for the six months ended June 30, 2023 were as follows:

	Total
Goodwill at January 1, 2023	$ 86,821
Pega Medical measurement period adjustment	(1,828)
Foreign currency translation impact	(2,082)
Goodwill at June 30, 2023	$ 82,911

Intangible Assets

As of June 30, 2023, the balances of amortizable intangible assets were as follows:

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Patents	11.7 years	$ 45,005	$ (9,259)	$ 35,746
Intellectual Property & Capitalized Software	9.7 years	15,383	(1,773)	13,610
Customer Relationships & Other	12.8 years	18,857	(2,557)	16,300
License Agreements	4.1 years	10,697	(4,421)	6,276
Total amortizable assets		$ 89,942	$ (18,010)	$ 71,932

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

	Weighted-Average Amortization Period	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Patents	12.2 years	$ 46,005	$ (7,953)	$ 38,052
Intellectual Property & Capitalized Software	9.8 years	5,859	(1,382)	4,477
Customer Relationships & Other	13.4 years	17,262	(1,805)	15,457
License Agreements	4.5 years	10,697	(3,703)	6,994
Total amortizable assets		$ 79,823	$ (14,843)	$ 64,980

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 $16,087 and $14,921 as of June 30, 2023 and December 31, 2022, respectively. Trademarks are recorded in Other intangible assets on the condensed consolidated balance sheets. The change in balance during the six months ended June 30, 2023 was the result of the measurement period adjustments associated with Pega Medical, the trademark recorded as a result of the MedTech acquisition, and foreign currency translation adjustments.

During 2022, management determined that a triggering event occurred, indicating that it was more likely than not the fair value of the ApiFix trademark asset was less than the carrying value. As such, the Company completed a quantitative analysis whereby we determined the fair value of the ApiFix trademark asset was below the carrying value. The primary reason for the impairment is the lower forecasted

revenue of our ApiFix product than previously expected. We recorded a $3,609 partial impairment charge for the year ended December 31, 2022 to reduce the carrying amount of the intangible asset to its estimated fair value. No impairment charges were recorded in any of the other periods presented or for any other indefinite lived trademark assets.

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The following table summarize the assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 and December 31, 2022.

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Short-term investments				
Certificates of Deposit	$ —	$ 25,113	$ —	$ 25,113
Exchange Trade Mutual Funds	$ 12,162	$ —	$ —	$ 12,162
Treasury Bonds	$ 46,189	$ —	$ —	$ 46,189
Other	$ 8	$ —	$ —	$ 8
Financial Liabilities				
Contingent Consideration	$ —	$ —	$ 6	$ 6

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Short-term investments				
Certificates of Deposit	$ —	$ 25,148	$ —	$ 25,148
Exchange Trade Mutual Funds	$ 18,939	$ —	$ —	$ 18,939
Treasury Bonds	$ 65,040	$ —	$ —	$ 65,040
Other	$ 172	$ —	$ —	$ 172
Financial Liabilities				
Contingent Consideration	$ —	$ —	$ 2,980	$ 2,980

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

The Company's Level 2 assets pertain to certain asset-backed securities, collateralized by non-mortgage-related consumer debt, or certificates of deposit. These securities are predominately priced by third parties, either by a pricing vendor or dealer with significant inputs observable in active markets.

The Company's Level 3 instruments consist of contingent consideration. The fair value of the contingent consideration liability 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 forecasted annual revenues, expected volatility and discount rates. The adjustments in the fair value of the contingent consideration payments included an income adjustment of $2,304 and $5,010 for the three months ended June 30, 2023 and June 30, 2022, respectively, and $2,974 and $2,440 for the six months ended June 30, 2023 and June 30, 2022, respectively, which are recorded in other (income) expenses on the condensed consolidated statements of operations.

The following table summarizes the change in fair value of Level 3 instruments in 2023:

	Total
Balance at January 1, 2023	$ 2,980
Change in fair value of contingent consideration	(2,974)
Balance at June 30, 2023	$ 6

The recurring Level 3 fair value measurements of contingent consideration liabilities associated with commercial sales milestones include the following significant unobservable inputs as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
Valuation techniques	Discounted cash flow, Monte Carlo	
Present value discount rate[(1)]	15.5 %	16.6 %
Volatility factor	38.1 %	48.0 %
Expected years	0.9 years	1.4 years

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

The estimated fair value reflects assumptions made by management as of June 30, 2023; however, the actual amount ultimately paid could be higher or lower than the fair value of the remaining contingent consideration.

NOTE 6 - DEBT AND CREDIT ARRANGEMENTS

Long-term debt consisted of the following:

	June 30, 2023	December 31, 2022
Mortgage payable to affiliate	$ 836	$ 907
Less: current maturities	148	144
Long-term debt with affiliate, net of current maturities	$ 688	$ 763

The Company is party to a Fourth Amended and Restated Loan and Security Agreement with Squadron Capital LLC (“Squadron”), as amended from time to time (as amended, the “Loan Agreement”), which

provides the Company with a $50,000 revolving credit facility. As of June 30, 2023 and December 31, 2022, there was no outstanding indebtedness under the Loan Agreement.

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

Borrowings under the revolving credit facility are made under a Second Amended and Restated Revolving Note, dated June 13, 2022 (the “Amended Revolving Note”), payable, jointly and severally, by the Company and each of its subsidiaries party thereto. The Amended Revolving Note matures 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. ("Tawani"), an affiliate of Squadron. Pursuant to the terms of the mortgage note, we pay Tawani 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 June 30, 2023 the mortgage balance was $836 of which current principal of $148 was included in the current portion of long-term debt. As of December 31, 2022, the mortgage balance was $907 of which current principal due of $144 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 $11 and $12 for the three months ended June 30, 2023 and 2022, respectively, and $22 and $25 for the six months ended June 30, 2023 and 2022, respectively.

NOTE 7 - INCOME TAXES

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

For the six months ended June 30, 2023, the income tax benefit was $975 compared to $756 for the six months ended June 30, 2022. Our effective income tax rate was 9.1% and 7.4% for the six months ended June 30, 2023 and 2022, respectively.

The deferred tax assets were fully offset by a valuation allowance at June 30, 2023 and December 31, 2022, with the exception of certain deferred tax liabilities recognized in a foreign jurisdiction as a result of fair value adjustments recorded upon the acquisition of ApiFix and Pega Medical. The Company has recorded a tax benefit during the period ended June 30, 2023 for losses generated in Canada and Israel.

NOTE 8 - STOCKHOLDERS' EQUITY

Stock Options

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

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

	Options	Weighted-Average Exercise Price	Remaining Contractual Terms (in Years)
Outstanding at January 1, 2023	3,556	$ 30.97	0.7
Outstanding at June 30, 2023	3,556	$ 30.97	0.2

Options generally include a time-based vesting schedule permitting the options to vest ratably over three years. At June 30, 2023 and December 31, 2022, all options were fully vested.

There was no stock-based compensation expense on stock options for the three and six months ended June 30, 2023 and 2022, respectively.

Restricted Stock

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

	Restricted Stock Awards	Weighted-Average Remaining Contractual Terms (in Years)	Restricted Stock Units	Weighted-Average Remaining Contractual Terms (in Years)
Outstanding at January 1, 2023	403,324	1.4	10,080	2.5
Granted	282,585		4,005	
Forfeited	(3,838)		(234)	
Vested	(115,760)		—	
Outstanding at June 30, 2023	566,311	2.0	13,851	2.2

At June 30, 2023, there was $18,215 of unrecognized compensation expense remaining related to our service-based restricted stock awards and restricted stock units. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.0 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 $3,456 and $1,770 for the three months ended June 30, 2023 and 2022, respectively, and $5,415 and $3,296 for the six months ended June 30, 2023 and 2022, respectively. The increase in the stock compensation for the three and six months ended June 30, 2023 is primarily due to increase in plan participants as we continue to hire employees to support the continued expansion of our business. Additionally, stock was issued as a component of both the Pega Medical and MedTech acquisitions. A portion of these shares have a service-based restriction, resulting in an increase in stock compensation over the life of the required years of service.

NOTE 9 – NET LOSS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	$ (2,886)	$ (333)	$ (9,692)	$ (9,433)
Weighted average number of shares - basic and diluted	22,704,723	19,792,286	22,587,022	19,693,216
Net loss per share - basic and diluted	$ (0.13)	$ (0.02)	$ (0.43)	$ (0.48)

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 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:

	Six Months Ended June 30,	
	2023	2022
Restricted stock	580,162	433,093
Stock options	3,556	5,298
Total shares	583,718	438,391

The contingently issuable shares in the table above do not include shares of our common stock associated with our recent acquisitions of Pega Medical, ApiFix or MedTech. See Note 3 for additional information regarding future equity issuances under each of these acquisitions.

NOTE 10 – BUSINESS SEGMENT

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

Product sales attributed to a country or region includes product sales to hospitals, physicians and distributors and is based on the final destination where the products are sold. No customers accounted for more than 10% of total product sales for the three and six months ended June 30, 2023 or 2022. No

customer accounted for more than 10% of consolidated accounts receivable as of June 30, 2023 and December 31, 2022.

Product sales by source were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Product sales by geographic location:	2023	2022	2023	2022
U.S.	$ 29,587	$ 24,960	$ 53,388	$ 43,148
International	9,972	7,968	17,759	13,197
Total	$ 39,559	$ 32,928	$ 71,147	$ 56,345

	Three Months Ended June 30,		Six Months Ended June 30,	
Product sales by category:	2023	2022	2023	2022
Trauma and deformity	$ 27,514	$ 22,568	$ 50,909	$ 39,084
Scoliosis	10,893	9,421	17,966	15,404
Sports medicine/other	1,152	939	2,272	1,857
Total	$ 39,559	$ 32,928	$ 71,147	$ 56,345

NOTE 11 - RELATED PARTY TRANSACTIONS

In addition to the debt and credit agreements and mortgage with Squadron and its affiliate (see Note 6), we currently use Structure Medical, LLC (“Structure Medical”) as one of our suppliers. Structure Medical is affiliated with Squadron and a supplier with which we maintain certain long-term agreements. We made aggregate payments to Structure Medical for inventory purchases of $149 and $234 for the three months ended June 30, 2023 and 2022, respectively, and $395 and $550 for the six months ended June 30, 2023 and 2022, respectively.

NOTE 12 - EMPLOYEE BENEFIT PLAN

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

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Leases

As of June 30, 2023, the Company has recorded a lease liability of $427 and corresponding right-of-use-asset of $462 on its condensed consolidated balance sheet.

Legal Proceedings

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

IMED Surgical - Software Ownership Dispute

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

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

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

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

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

Wishbone Medical, Inc. – Patent Infringement Litigation

On October 30, 2020, 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. In late January 2023, Wishbone amended its counterclaims to add a breach of contract claim against OrthoPediatrics. In early February 2023, OrthoPediatrics filed its answer to Wishbone's amended counterclaims, denying all of them. Additionally, in late March 2023, Wishbone filed a motion for judgment on the pleadings regarding the patent eligibility of the '377 patent. In mid-April 2023, OrthoPediatrics filed its response to Wishbone's late March 2023 motion. In mid-June 2023, the Court denied Wishbone's motion for judgment on the pleadings. 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 during 2021, the Company agreed to a minimum purchase commitment for the first twelve months of that agreement. Additionally, the contract requires future purchase commitments based upon a percentage of historical purchases. As a result and as of June 30, 2023, the remaining purchase commitment under the agreement was $1,593 for the year ended December 31, 2023 and $2,340 for the year ended December 31, 2024.

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 six months ended June 30, 2023, the Company recorded an expense of $576 based on current estimates. The Company recorded $341 of expense for the six months ended June 30, 2022.

Royalties

As of June 30, 2023, 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 royalty commitments. In any development project, there are significant variables that will affect the amount and timing of these payments and as of June 30, 2023, we have not been able to determine the amount and timing of payments. We do not anticipate these future payments will have a material impact on our financial results.

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

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

The description of our business included in this quarterly report is summary in nature and only includes material developments that have occurred since the latest full description. The full description of the history and general development of our business is included in "Item 1. Description of Business" section of the Company's Annual Report on Form 10-K filed with the SEC on March 1, 2023, 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, instruments and specialized braces to meet the needs of pediatric surgeons or orthotists 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 $3.9 billion opportunity globally, including over $1.7 billion in the United States.

We sell implants, instruments and specialized braces to our customers for use by pediatric orthopedic surgeons, orthotists or physical therapists 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 or in the case of our braces, we transfer control of our products to the distributor or customer when title passes upon shipment.

We currently market 50 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 41 independent sales agencies employing more than 200 sales representatives specifically focused on pediatrics. These independent sales agents are trained by us, distribute our products and are compensated through sales-based commissions and performance bonuses. We do not sell our products through or participate in physician-owned distributorships, or PODs.

We market and sell our products internationally in over 70 countries, through independent stocking distributors and sales agencies. Our independent distributors manage the billing relationship with each hospital in their respective territories and are responsible for servicing the product needs of their surgeon customers. In 2017, we began to supplement our international stocking distributors with sales agencies using direct sales programs in the United Kingdom, Ireland, Australia and New Zealand where we sell directly to the hospitals. We began selling direct to Canada in September 2018, Belgium and the Netherlands in January 2019, Italy in March 2020 and Germany, Switzerland and Austria in January 2021.

In order to further enhance our operations in Europe, we established operating companies in the Netherlands and Germany in March 2019 and April 2022, respectively. In January 2023, we established a direct sales organization in Germany, the Company's first direct selling organization serving an international market. In our international markets, excluding Germany, we work through sales agencies that are paid a commission, similar to our U.S. sales model. These arrangements have generated 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.

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 670,000 children, when including those served by our acquired companies. 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 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 and summary report which can be found 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 Company and its Board of Directors understand the value of diversity. Since the conclusion of our 2022 annual meeting of stockholders, the Company has added two diverse Directors to our Board.

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.

Trends and Uncertainties

From time to time we acquire, make investments in or license other technologies, products and business that may enhance our capabilities, complement our current products or expand the breadth of our markets or customer base. As a result of these transactions, we may record certain intangible assets, including goodwill and trademarks, which are subject to annual impairment testing. Fair value is based on our current assessment of the expected future cash flows based on recent results and other specific

market factors. During 2022, we determined that a triggering event had occurred indicating it was more likely than not the fair value of the ApiFix trademark was less than the associated carrying value. Subsequently, the Company completed a quantitative analysis and concluded that the fair value was in fact less than the carrying value and a partial impairment loss of $3.6 million was recorded in the period. We believe that the expected future cash flows in the most recent calculations represent management's best estimate; however, if actual results differ materially from these estimates, we could record an additional impairment charge which could be material to our consolidated financial statements and have an adverse impact on our results of operations.

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

As a result of the COVID-19 pandemic, we experienced significant business disruption throughout the last several years. Elective procedures were delayed in some cases as hospitals continue to struggle with adequate staffing levels. As a majority of our products are utilized in elective surgeries or procedures, the deferrals of such surgeries and procedures have had, and may continue to have, a significant negative impact on our business and results of operations. Throughout the pandemic, we took a variety of steps to address the impact. We continue to monitor the impact of the pandemic on our employees and customers and the markets in which we operate and will take further actions that are considered prudent to address the pandemic. We cannot accurately predict with certainty the full extent to which the pandemic will impact demand for our products in the future.

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 1, 2023 and in other reports filed with the SEC that discuss the risks and factors that may affect our business.

Smaller Reporting Company Status

We 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, certain exemptions may be available to us.

Summary of Statements of Operations for the Three and Six Months Ended June 30, 2023 and 2022

The following table sets forth our results of operations for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2023	2022	Increase (Decrease)	%	2023	2022	Increase (Decrease)	%
Net revenue	$ 39,559	$ 32,928	$ 6,631	20 %	$ 71,147	$ 56,345	$ 14,802	26 %
Cost of revenue	9,534	7,947	1,587	20 %	17,561	12,798	4,763	37 %
Sales and marketing expenses	13,165	12,431	734	6 %	25,381	22,189	3,192	14 %
General and administrative expenses	19,654	14,546	5,108	35 %	37,320	27,713	9,607	35 %
Research and development expenses	2,792	1,747	1,045	60 %	5,062	3,774	1,288	34 %
Other (income) expenses	(2,299)	(2,971)	672	(23)%	(3,510)	60	(3,570)	(5,950)%
Provision for income taxes (benefit)	(401)	(439)	38	9 %	(975)	(756)	(219)	(29)%
Net loss	$ (2,886)	$ (333)	$ 2,553	767 %	$ (9,692)	$ (9,433)	$ 259	3 %

Net Revenue

The following tables set forth our net revenue by geography and product category for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
Product sales by geographic location:	2023	2022	2023	2022
U.S.	$ 29,587	$ 24,960	$ 53,388	$ 43,148
International	9,972	7,968	17,759	13,197
Total	$ 39,559	$ 32,928	$ 71,147	$ 56,345

	Three Months Ended June 30,		Six Months Ended June 30,	
Product sales by category:	2023	2022	2023	2022
Trauma and deformity	$ 27,514	$ 22,568	$ 50,909	$ 39,084
Scoliosis	10,893	9,421	17,966	15,404
Sports medicine/other	1,152	939	2,272	1,857
Total	$ 39,559	$ 32,928	$ 71,147	$ 56,345

Net revenue increased $6.6 million, or 20%, from $32.9 million for the three months ended June 30, 2022 to $39.6 million for the three months ended June 30, 2023. Net revenue increased $14.8 million, or 26%, from $56.3 million for the six months ended June 30, 2022 to $71.1 million for the six months ended June 30, 2023. The increases during the three and six months ended June 30, 2023 were primarily driven by strong performance across trauma and deformity, partially due to acquisitions, and a 35% increase in international revenue.

Trauma and deformity sales increased $4.9 million, or 22%, from $22.6 million during the three months ended June 30, 2022, to $27.5 million for the three months ended June 30, 2023. Sales increased $11.8 million, or 30%, from $39.1 million during the six months ended June 30, 2022 to $50.9 million for the six months ended June 30, 2023. Increases for both the three and six month periods ended June 30, 2023 were primarily driven by strong growth across numerous product lines, specifically our Cannulated

Screws, PNP Femur, PediPlate and external fixation systems. Also, as previously mentioned, revenue from the prior year acquisitions is included in trauma and deformity. Scoliosis sales increased $1.5 million, or 16%, during the three months ended June 30, 2023. Sales increased $2.6 million, or 17%, from $15.4 million during the six months ended June 30, 2022 to $18.0 million for the six months ended June 30, 2023. Increases for both the three and six month periods ended June 30, 2023 were primarily driven by increased sales of our RESPONSE 5.5/6.0 and ApiFix systems and revenue generated from 7D Technology. Sports medicine / other increased $0.2 million, or 23%, during the three months ended June 30, 2023, and increased $0.4 million, or 22%, during the six months ended June 30, 2023. Increases were primarily driven by 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 increased $1.6 million, or 20%, from $7.9 million for the three months ended June 30, 2022 to $9.5 million for the three months ended June 30, 2023. Cost of revenue increased $4.8 million, or 37%, from $12.8 million for the six months ended June 30, 2022 to $17.6 million for the six months ended June 30, 2023. The increases are due primarily to sales volume, including the added cost of revenue associated with the revenue generated by acquisitions. Gross margin was 76% for the three months ended June 30, 2023 and June 30, 2022. The gross margin was 75% and 77% for the six months ended June 30, 2023 and June 30, 2022, respectively.

Sales and Marketing Expenses

Sales and marketing expenses increased $0.7 million, or 6%, to $13.2 million for the three months ended June 30, 2023 from $12.4 million for the three months ended June 30, 2022. Sales and marketing expense increased $3.2 million, or 14%, to $25.4 million for the six months ended June 30, 2023 from $22.2 million for the six months ended June 30, 2022. The changes in the three and six month periods ended June 30, 2023 were due primarily to increased sales commission expenses.

General and Administrative Expenses

General and administrative expenses increased $5.1 million, or 35%, from $14.5 million for the three months ended June 30, 2022 to $19.7 million for the three months ended June 30, 2023, and increased $9.6 million, or 35%, from $27.7 million for the six months June 30, 2022 to $37.3 million for the six months ended June 30, 2023. The increases for the three and six month periods ended June 30, 2023 were due primarily to the addition of personnel and resources to support the continued expansion of our business. Stock compensation increased in tandem with the increase in personnel, and also as a result of common stock issued to a former MedTech owner that is subject to service-based vesting conditions.

Depreciation and amortization expenses increased $0.8 million, or 24%, from $3.2 million for the three months ended June 30, 2022 to $4.0 million for the three months ended June 30, 2023. Depreciation and amortization expenses increased $1.6 million, or 26%, from $6.3 million for the six months ended June 30, 2022 to $7.9 million for the six months ended June 30, 2023. The increases in depreciation for the three and six month periods ended June 30, 2023 were primarily due to higher set deployments and increased amortization associated with acquisitions.

Research and Development Expenses

Research and development expenses increased $1.0 million, or 60%, from $1.7 million for the three months ended June 30, 2022 to $2.8 million for the three months ended June 30, 2023. Research and development expenses increased $1.3 million, or 34%, from $3.8 million for the six months ended June 30, 2022 to $5.1 million for the six months ended June 30, 2023. The increase for the three and six month periods ended June 30, 2023 were primarily due to incremental product development and the addition of personnel to support the future growth of the business.

Total Other (Income) Expenses

Other income was $2.3 million and $3.0 million for the three months ended June 30, 2023 and 2022, respectively, a change of $0.7 million or 23%. Other income was $3.5 million and other expense was $60 thousand for the six months ended June 30, 2023 and 2022, respectively, resulting in a change of $3.6 million. The change in other (income) expense for the three and six months ended June 30, 2023 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 as well as a decrease in net interest expense.

Liquidity and Capital Resources

We have incurred operating losses since inception which resulted in negative cash flows used in operating activities of $10.8 million and $12.4 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, we had an accumulated deficit of $186.5 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 June 30, 2023, we had cash and cash equivalents, restricted cash and short-term investments of $94.8 million.

Cash Flows

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

	Six Months Ended June 30,	
	2023	2022
Net cash used in operating activities	$ (10,834)	$ (12,367)
Net cash provided by investing activities	14,087	13,775
Net cash (used in) provided by financing activities	(2,071)	27,741
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(335)	400
Net increase in cash, cash equivalents and restricted cash	$ 847	$ 29,549

Cash Used in Operating Activities

Net cash used in operating activities was $10.8 million and $12.4 million for the six months ended June 30, 2023 and 2022, 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 $11.3 million for the six months ended June 30, 2023 compared to a use of $10.9 million for the six months ended June 30, 2022.

Cash Provided by Investing Activities

Net cash provided by investing activities for the six months ended June 30, 2023 was $14.1 million compared to $13.8 million for the six months ended June 30, 2022. Net cash provided by investing activities for the six months ended June 30, 2023 consisted primarily of the sale of short-term marketable securities, when netted against the purchase of similar securities, offset by purchases of property, plant and equipment of $10.6 million, the majority of which is instrument sets.

Cash (Used in) Provided by Financing Activities

Net cash used in financing activities for the six months ended June 30, 2023 was $2.1 compared to net cash provided by financing activities of $27.7 for the six months ended June 30, 2022. The use of cash in 2023 primarily related to the cash settlement of the current year ApiFix installment payment. The source of cash in 2022 was driven primarily by the proceeds of debt incurred in connection with the acquisition of Pega Medical Inc.

Indebtedness

The Company is party to a Fourth Amended and Restated Loan and Security Agreement with Squadron, which provides the Company with a $50.0 million revolving credit facility. As of June 30, 2023, there was no outstanding indebtedness under the Loan Agreement.

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.

See Note 6 - Debt and Credit Arrangements in Item 1 for further detail regarding our debt.

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

There were no material changes to our critical accounting policies that are disclosed in our audited consolidated financial statements for the year ended December 31, 2022 filed with the SEC on March 1, 2023.

Recent Accounting Pronouncements

See Note 2 - Significant Accounting Policies in Item 1 Financial Statements of Part 1 of this Quarterly report on Form 10-Q for a description of recent accounting pronouncements applicable to our condensed consolidated financial statements.

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

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this quarterly report, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report on Form 10-K filed with the SEC on March 1, 2023. 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, except as otherwise described in a Current Report on Form 8-K filed with respect to the period covered by this Quarterly Report on Form 10-Q.

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. Information required under Form 8-K.

None.

b. Modifications to nomination process.

None.

c. Insider trading arrangements

During the three months ended June 30, 2023, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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)
2.2w		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)
2.3w		Membership Interest Purchase Agreement, dated May 1, 2023, by and among OrthoPediatrics Corp., Kevin Unger, DINZE LLC, and the sole member of DINZE LLC (Incorporated by reference to Exhibit 2.1 of registrant's form 8-K filed on May 1, 2023) (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		Third Amendment to the Fourth Amended and Restated Loan Agreement, date as of December 31, 2021, by and among OrthoPediatrics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on January 6, 2022) (SEC File No. 001-38242)
10.5		Fourth Amendment to the Fourth Amended and Restated Loan Agreement, dated as of June 13, 2022, by and among OrthoPediatrics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on June 15, 2022) (SEC File No. 001-38242)
10.6		Fifth Amendment to the Fourth Amended and Restated Loan Agreement, dated as of November 15, 2022, by and among OrthoPediatrics Corp., its subsidiaries named therein and Squadron Capital LLC (Incorporated by reference to Exhibit 10.16 of registrant's Form 10-K filed on March 1, 2023) (SEC File No. 001-38242)
10.7		Second Amended and Restated Revolving Note, dated June 13, 2022, made payable, jointly and severally, by OrthoPediatrics Corp. and each of its subsidiaries party thereto (Incorporated by reference to Exhibit 10.2 of registrant's Form 8-K filed on June 15, 2022) (SEC File No. 001-38242)
10.8	*	OrthoPediatrics Corp. Non-Employee Director Compensation Policy, effective January 1, 2023 (Incorporated by reference to Exhibit 10.1 of registrant's Form 8-K filed on May 1, 2023) (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 exhibits and schedules to the applicable agreement have been omitted pursuant to Item 601(a)(5) 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.

August 1, 2023

By: /s/ David R. Bailey

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

August 1, 2023

By: /s/ Fred L. Hite

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

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

I, David R. Bailey, certify that:

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

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

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

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

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

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

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

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

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

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

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

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

Date: August 1, 2023

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 and Accounting Officer)

Date: August 1, 2023

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 June 30 2023, 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: August 1, 2023

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 June 30, 2023, 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 and Accounting Officer)

Date: August 1, 2023