UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

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: 001-40902

Paragon 28, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-3170186**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
14445 Grasslands Drive Englewood, CO	**80112**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (720) 912-1332

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.01 par value per share	FNA	The New York Stock Exchange

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

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

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

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

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

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

As of May 3, 2024, there were 82,951,360 shares of the registrant's common stock, $0.01 par value per share, outstanding.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future financial condition, future operations, projected costs, prospects, plans, objectives of management and expected market growth, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “aim,” “anticipate,” “assume,” “believe,” “contemplate,” “continue,” “could,” “design,” “due,” “estimate,” “expect,” “goal,” “intend,” “may,” “objective,” “plan,” “positioned,” “potential,” “predict,” “seek,” “should,” “target,” “will,” “would” and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology. All statements other than statements of historical fact contained in this Quarterly Report, including without limitation statements regarding our business model and strategic plans for our products, technologies and business, including our implementation thereof, the impact on our business, financial condition and results of operations from macroeconomic conditions, the timing of and our ability to obtain and maintain regulatory approvals, our commercialization efforts, our acquisitions, including resulting synergies and future milestone payouts, marketing and manufacturing capabilities and strategy, our expectations about the commercial success and market acceptance of our products, the sufficiency of our cash, cash equivalents and marketable securities, and the plans and objectives of management for future operations and capital expenditures are forward-looking statements.

The forward-looking statements in this Quarterly Report are only predictions and are based largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of known and unknown risks, uncertainties, and assumptions, including those described under the sections in this Quarterly Report entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely upon these forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance, or achievements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise. We intend the forward-looking statements contained in this Quarterly Report to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

PARAGON 28, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(unaudited)

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash	$ 58,222	$ 75,639
Trade receivables, net of allowance for doubtful accounts of $1,701 and $1,339, respectively	40,262	37,323
Inventories, net	104,298	98,062
Income taxes receivable	597	794
Other current assets	4,013	3,997
Total current assets	207,392	215,815
Property and equipment, net	75,701	74,122
Intangible assets, net	21,458	21,674
Goodwill	25,465	25,465
Deferred income taxes	678	705
Other assets	3,900	2,918
Total assets	$ 334,594	$ 340,699
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 29,224	$ 21,696
Accrued expenses	26,823	27,781
Other current liabilities	909	883
Current maturities of long-term debt	640	640
Income taxes payable	450	243
Total current liabilities	58,046	51,243
Long-term liabilities:		
Long-term debt net, less current maturities	109,847	109,799
Other long-term liabilities	1,356	1,048
Deferred income taxes	231	233
Income taxes payable	638	635
Total liabilities	170,118	162,958
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $0.01 par value, 300,000,000 shares authorized; 83,858,930 and 83,738,974 shares issued, and 82,945,411 and 82,825,455 shares outstanding as of March 31, 2024 and December 31, 2023, respectively	828	827
Additional paid in capital	301,459	298,394
Accumulated deficit	(130,864)	(115,630)
Accumulated other comprehensive loss	(965)	132
Treasury stock, at cost; 913,519 shares as of March 31, 2024 and December 31, 2023	(5,982)	(5,982)
Total stockholders' equity	164,476	177,741
Total liabilities & stockholders' equity	$ 334,594	$ 340,699

The accompanying notes are an integral part of these condensed consolidated financial statements.

PARAGON 28, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except share and per share data)
(unaudited)

	Three Months Ended March 31,	
	2024	2023
Net revenue	$ 61,082	$ 52,036
Cost of goods sold	12,186	8,906
Gross profit	48,896	43,130
Operating expenses:		
Research and development costs	7,584	7,049
Selling, general, and administrative	54,215	43,820
Total operating expenses	61,799	50,869
Operating loss	(12,903)	(7,739)
Other income (expense):		
Other income (expense), net	515	(179)
Interest expense, net	(2,622)	(1,205)
Total other expense, net	(2,107)	(1,384)
Loss before income taxes	(15,010)	(9,123)
Income tax expense (benefit)	224	(71)
Net loss	$ (15,234)	$ (9,052)
Foreign currency translation adjustment	(1,097)	(99)
Comprehensive loss	$ (16,331)	$ (9,151)
Weighted average number of shares of common stock outstanding:		
Basic	82,854,334	80,681,715
Diluted	82,854,334	80,681,715
Net loss per share attributable to common stockholders:		
Basic	$ (0.18)	$ (0.11)
Diluted	$ (0.18)	$ (0.11)

The accompanying notes are an integral part of these condensed consolidated financial statements.

PARAGON 28, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except for number of shares)
(unaudited)

For the Three Months Ended March 31, 2024	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2023	82,825,455	$ 827	$ 298,394	$ (115,630)	$ 132	$ (5,982)	$ 177,741
Net Loss	—	—	—	(15,234)	—	—	(15,234)
Options exercised	48,750	—	298	—	—	—	298
Restricted stock vested	71,206	1	(401)	—	—	—	(400)
Foreign currency translation	—	—	—	—	(1,097)	—	(1,097)
Employee stock purchase plan	—	—	80	—	—	—	80
Stock-based compensation	—	—	3,088	—	—	—	3,088
Balance March 31, 2024	82,945,411	$ 828	$ 301,459	$ (130,864)	$ (965)	$ (5,982)	$ 164,476

For the Three Months Ended March 31, 2023	Common Stock Shares	Common Stock Amount	Additional Paid-in-Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2022	77,770,588	$ 776	$ 213,956	$ (67,789)	$ (33)	$ (5,982)	$ 140,928
Net loss	—	—	—	(9,052)	—	—	(9,052)
Issuance of common stock, net of issuance costs of $831	4,312,500	43	68,406	—	—	—	68,449
Options exercised	223,785	2	1,620	—	—	—	1,622
Foreign currency translation	—	—	—	—	(99)	—	(99)
Employee stock purchase plan	—	—	122	—	—	—	122
Stock-based compensation	—	—	3,182	—	—	—	3,182
Balance, March 31, 2023	82,306,873	$ 821	$ 287,286	$ (76,841)	$ (132)	$ (5,982)	$ 205,152

The accompanying notes are an integral part of these condensed consolidated financial statements.

PARAGON 28, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash flows from operating activities		
Net loss	$ (15,234)	$ (9,052)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,258	3,117
Provision for excess and obsolete inventories	471	293
Stock-based compensation	3,088	3,182
Change in fair value	(519)	80
Other	(785)	100
Changes in other assets and liabilities, net of acquisitions:		
Accounts receivable	(3,099)	441
Inventories	(7,044)	(8,435)
Accounts payable	7,441	5,592
Accrued expenses	194	(877)
Accrued legal settlement	—	(9,000)
Income tax receivable/payable	398	132
Other assets and liabilities	(162)	367
Net cash used in operating activities	(10,993)	(14,060)
Cash flows from investing activities		
Purchases of property and equipment	(5,817)	(7,521)
Proceeds from sale of property and equipment	292	223
Purchases of intangible assets	(253)	(254)
Net cash used in investing activities	(5,778)	(7,552)
Cash flows from financing activities		
Payments on long-term debt	(160)	(197)
Payments of debt issuance costs	—	(7)
Proceeds from issuance of common stock, net of issuance costs	—	68,449
Options exercised	298	1,622
RSU vesting, taxes paid	(400)	—
Payments on earnout liability	(1,000)	(500)
Net cash (used in) provided by financing activities	(1,262)	69,367
Effect of exchange rate changes on cash	616	(340)
Net (decrease) increase in cash	(17,417)	47,415
Cash at beginning of period	75,639	38,468
Cash at end of period	$ 58,222	$ 85,883
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	—	—
Cash paid for interest	2,264	601
Purchase of property and equipment included in accounts payable	4,952	4,026

The accompanying notes are an integral part of these condensed consolidated financial statements.

NOTE 1. BUSINESS AND BASIS OF PRESENTATION

Business

Paragon 28, Inc. (collectively with its subsidiaries, “we,” “us,” “our,” “P28” or the “Company”) develops, distributes, and sells medical devices in the foot and ankle segment of the orthopedic implant marketplace. Our approach to product development is procedurally focused, resulting in a full range of procedure-specific foot and ankle products designed specifically for foot and ankle anatomy. Our products and product families include plates and plating systems, screws, staples, and nails aimed to address all major foot and ankle procedures including fracture fixation, forefoot or hallux valgus - which includes bunion and hammertoe, ankle, flatfoot or progressive collapsing foot deformity ("PCDF"), charcot foot and orthobiologics. P28 is a United States (“U.S.”) based company incorporated in the State of Delaware, with headquarters in Englewood, Colorado. Our sales representatives and distributors are located globally with the majority concentrated in the U.S., Australia, South Africa, and the United Kingdom.

Basis of Presentation and Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of Paragon 28, Inc. and its subsidiaries, all of which are wholly-owned. The accompanying Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the U.S. (“U.S. GAAP”) and pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for interim financial information. Accordingly, they do not include all of the information required by U.S. GAAP for complete financial statements. The interim Condensed Consolidated Financial Statements reflect all adjustments that are of a normal recurring nature and that are considered necessary for a fair representation of the results for the periods presented and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2023, which include a complete set of footnote disclosures, including our significant accounting policies. The audited Consolidated Financial Statements and notes thereto for the year ended December 31, 2023, are included in the Company’s Annual filing on Form 10-K filed with the SEC on February 29, 2024. The results for interim periods are not necessarily indicative of the results that may be expected for a full fiscal year or for any other future period. All intercompany balances and transactions have been eliminated in consolidation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Any changes in these estimates will be reflected in the Company’s Condensed Consolidated Financial Statements. Significant items subject to such estimates and assumptions include the determination of the collectability of trade receivables, inventory obsolescence, impairment of long-lived assets, recoverability of goodwill and intangible assets, contingent earn-out liabilities, income taxes and stock-based compensation. During the three months ended March 31, 2024, the Company revised the inputs used in estimating the reserve on obsolete and slow-moving inventory to include forecasted sales, in addition to current inventory levels and historical sales. The effect of this change in estimate was a decrease of $1,836 to the Company's reserve for obsolete and slow-moving inventory.

Foreign Currency Translation

The Condensed Consolidated Financial Statements are presented in U.S. dollars. The Company’s non-U.S. subsidiaries have a functional currency (i.e., the currency in which operational activities are primarily conducted) that is other than the U.S. dollar, generally the currency of the country in which such subsidiaries are domiciled. Such subsidiaries’ assets and liabilities are translated into U.S. dollars at quarter-end exchange rates, while revenue and expenses are translated at average exchange rates during the quarter based on the daily closing exchange rates. Adjustments that result from translating amounts from a subsidiary’s functional currency to U.S. dollars are reported in Accumulated Other Comprehensive Loss, net of tax.

Significant Accounting Policies

There have been no changes in the Company's significant accounting policies as disclosed in Note 2 to our audited Consolidated Financial Statements included in our 2023 Annual Report on Form 10-K.

Recently Adopted Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which provides amendments to improve reportable segment disclosures requirements. The amendments in ASU 2023-07 are effective for fiscal years beginning after

(in thousands, except share and per share data)

December 15, 2023, with early adoption permitted. The Company adopted ASU 2023-07 effective January 1, 2024. The adoption of this guidance did not have a significant impact on the Company's related disclosures.

Recently Issued Accounting Pronouncements

In October 2023, the FASB issued ASU 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative. The amendments in ASU 2023-06 modify the disclosure or presentation requirements of a variety of Topics in the Codification. Certain of the amendments represent clarifications to or technical corrections of the current requirements. ASU 2023-06 is applicable to all entities subject to the SEC's existing disclosure requirements. The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. The Company is currently evaluating the amendments in ASU 2023-06 and does not expect the adoption to have a significant impact on the Company's Consolidated Financial Statements and related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"), to enhance the transparency and decision usefulness of income tax disclosures. The main provisions in ASU 2023-09 enhance the disclosure requirements of rate reconciliations and income taxes paid. For public business entities, the amendments in ASU 2023-09 are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments in this update should be applied on a prospective basis, retrospective application is permitted. The Company is currently evaluating the amendments in this guidance to determine the impact it will have on the Company's Consolidated Financial Statements and related disclosures.

NOTE 3. INTANGIBLE ASSETS

Intangibles

Intangible assets as of March 31, 2024 were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks and tradenames, indefinite-lived	$ 987	$ —	$ 987
Patents, definite-lived	8,153	2,720	5,433
Customer relationships	1,733	639	1,094
Developed technology	17,690	3,748	13,942
Other intangibles	30	28	2
Total intangible assets, net	$ 28,593	$ 7,135	$ 21,458

Intangible assets as of December 31, 2023, were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks and tradenames, indefinite-lived	$ 987	$ —	$ 987
Patents, definite-lived	7,900	2,649	5,251
Customer relationships	1,733	567	1,165
Developed technology	17,690	3,424	14,267
Other intangibles	30	26	4
Total intangible assets, net	$ 28,340	$ 6,666	$ 21,674

Amortization expense is included in Selling, general, and administrative expenses and was $470 and $503 for the three months ended March 31, 2024 and 2023, respectively.

Expected future amortization expense is as follows:

2024 (Remaining)	$ 1,475
2025	1,943
2026	1,943
2027	1,942
2028	1,943
Thereafter	12,212
Total future amortization expense	$ 21,458

(in thousands, except share and per share data)

No impairment charges related to intangibles and goodwill were recorded for the three months ended March 31, 2024 and 2023.

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company measures certain financial assets and liabilities at fair value. There is a fair value hierarchy which prioritizes inputs used in measuring fair value into three broad levels:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2- Includes other inputs that are directly or indirectly observable in the marketplace, such as quoted market prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs which are supported by little or no market activity.

The Company's significant financial assets and liabilities measured at fair value as of March 31, 2024, were as follows:

	Level 1	Level 2	Level 3	Total
Financial Assets:				
Interest rate swap	$ —	1,509	—	$1,509
Financial Liabilities:				
Contingent consideration	$ —	—	340	$ 340

The Company’s Level 2 asset pertains to an interest rate swap associated with the Company's Zions Facility, used to manage interest rate risk related to variable rate borrowings and manage exposure to the variability of cash flows. The interest rate swap is not designated for hedge accounting and is measured utilizing inputs observable in active markets. For the three months ended March 31, 2024, we reassessed the fair value of our swap which resulted in an increase of $519. The swap asset is recorded in Other assets on the Condensed Consolidated Balance Sheet and the change in fair value is recorded in Other income (expense) within the Condensed Consolidated Statement of Operations and Comprehensive Loss.

As of March 31, 2024, the Company's Level 3 contingent earn-out liability of $340 is included in Other-current liabilities on the Condensed Consolidated Balance Sheet. The Company's Level 3 liability is related to the remaining two milestones associated with the Additive Orthopaedics acquisition.

As of December 31, 2023, one project milestone associated with the Disior acquisition and one project milestone associated with the Additive Orthopaedics acquisition was included in Accrued expenses on the Consolidated Balance Sheet totaling $2,000. During the three months ended March 31, 2024, $1,000 was paid in cash related to the Additive Orthopaedics milestone. As of March 31, 2024, the remaining $1,000 related to the Disior acquisition was included in Accrued expenses on the Condensed Consolidated Balance Sheet. For additional information on the Disior and Additive Orthopaedics acquisitions refer to Note 3 to our Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

NOTE 5. DEBT

Long-term debt as of March 31, 2024 and December 31, 2023 consists of the following:

	March 31, 2024	December 31, 2023
Ares Revolving Loan	$ 25,000	$ 25,000
Ares Term Loan	75,000	75,000
Zions Term Loan	14,773	14,933
	114,773	114,933
Less: deferred issuance costs	(4,286)	(4,494)
Total debt, net of issuance costs	110,487	110,439
Less: current portion	(640)	(640)
Long-term debt, net, less current maturities	$ 109,847	$ 109,799

Ares Credit Agreement

On November 2, 2023, the Company entered into a new credit agreement with Ares Capital Corporation to provide a total of $150,000, inclusive of a revolving credit facility of up to $50,000 (the “Ares Revolving Loan”) and a term loan facility of up to $100,000 (the “Ares Term Loan”). The obligations under the Ares Credit Agreement are guaranteed by each of the Borrowers’ current and future domestic subsidiaries and secured by liens on substantially all of the Borrowers’ and guarantors’ present and after-acquired assets, in each case, subject to certain customary exceptions. In connection with the closing of the Ares Credit Agreement, the Company drew down $25,000 and $75,000 on the Ares Revolving Loan and Ares Term Loan, respectively. The Ares Revolving Loan and Ares Term Loan bear interest at variable rates of Term SOFR plus 4% and Term SOFR plus 6.75%, respectively, subject in the case of the Ares Term Loan to certain step-downs and adjustments as set forth in the Ares Credit Agreement, and mature on the earlier of (i) November 2, 2028, and (ii) with respect to the Ares Revolving Loan, 6 months prior to the maturity date of any other indebtedness in a principal or stated amount in excess of $12,500. The Ares Credit Agreement contains a financial covenant requiring the Company to maintain certain minimum revenue levels. As of March 31, 2024, the Company was in compliance with all financial covenants under the Ares Credit Agreement. Total debt issuance costs associated with the Ares Credit Agreement were $4,071 as of March 31, 2024. Amortization expense associated with such debt issuance costs totaled $204 and $0 for the three months ended March 31, 2024 and 2023, respectively and is included in Interest expense on the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Vectra Bank Colorado Loan Agreements

On March 24, 2022, the Company entered into a secured term loan facility (the “Zions Facility”) with Zions Bancorporation, N.A. dba Vectra Bank Colorado in the principal amount of $16,000. The loans under the Zions Facility (i) bear interest at a variable rate per annum equal to the sum of (a) a one-month Term SOFR based rate, plus (b) 1.75%, adjusted on a monthly basis and (ii) mature on March 24, 2037. Principal and interest payments are payable monthly, with optional prepayments allowed without premium or penalty.

Effective as of November 10, 2022, the Company entered into the First Amendment to the Zions Facility. The amendment to the Zions Facility amends the financial covenants to require the Company to maintain (i) the Liquidity Ratio, if the Cash Flow as of the last day of any quarter measured on a trailing three month basis is less than or equal to $0, and (ii) the Fixed Charge Coverage Ratio which will be calculated as of the last day of each quarter on a trailing four quarter basis, as well as a certain level of Liquidity, if the Cash Flow is greater than $0. In addition, a Net Revenue Growth covenant was added which will be calculated as of the last day of each quarter on a year-over-year basis.

Effective as of November 2, 2023, the Company entered into the Second Amendment to the Zions Facility (the "Second Amendment"). The Second Amendment replaces references to MidCap Financial Trust and MidCap Credit Agreements with references to Ares and the Ares Credit Agreement. As of March 31, 2024, the Company was in compliance with all financial covenants under the Second Amendment. Total debt issuance costs associated with the Zions Facility were $215 as of March 31, 2024. Amortization expense associated with such debt issuance costs was $4 during each of the three months ended March 31, 2024 and 2023, and is included in Interest expense on the Condensed Consolidated Statements of Operations and Comprehensive Loss.

NOTE 6. STOCKHOLDERS’ EQUITY

Under its Amended and Restated Certificate of Incorporation, the Company has a total of 310,000,000 shares of capital stock authorized for issuance, consisting of 300,000,000 shares of common stock, par value of $0.01 per share, and 10,000,000 shares of convertible preferred stock, par value of $0.01 per share.

Common Stock

On January 30, 2023, the Company completed an underwritten public offering ("the Offering") of 6,500,000 shares of its common stock at an offering price of $17.00 per share, which consisted of 3,750,000 shares of common stock issued and sold by the Company and 2,750,000 shares of common stock sold by certain selling securityholders. On February 17, 2023, the underwriters exercised in full their option to purchase an additional 562,500 shares and 412,500 shares of common stock from the Company and the selling securityholders, respectively.

The Company received aggregate net proceeds from the Offering of approximately $68,453 after deducting underwriting discounts and commissions and offering expenses payable by the Company. The selling securityholders received aggregate net proceeds from the Offering of approximately $50,700 after deducting underwriting discounts and commissions. The Company did not receive any of the proceeds from the sale of shares of Common Stock by the selling securityholders.

Treasury Stock

The Company did not purchase any of its common stock during the three months ended March 31, 2024 and 2023. All previously repurchased shares were recorded in Treasury stock at cost.

(in thousands, except share and per share data)

NOTE 7. LOSS PER SHARE

Basic net loss per share is computed by dividing net loss attributable to common stockholders (the numerator) by the weighted average number of common stock outstanding for the period (the denominator). Diluted net income per share of common stock attributable to common stockholders is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period adjusted for the dilutive effects of common stock equivalents using the treasury stock method or the method based on the nature of such securities. In periods when losses from operations are reported, the weighted-average number of shares of common stock outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. The computation of net loss per share for the three months ended March 31, 2024 and 2023, respectively was as follows:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Net loss	$ (15,234)	$ (9,052)
Weighted-average common stock outstanding:		
Basic	82,854,334	80,681,715
Diluted	82,854,334	80,681,715
Loss per share:		
Basic	$ (0.18)	$ (0.11)
Diluted	$ (0.18)	$ (0.11)

The following outstanding potentially dilutive securities were excluded from the calculation of diluted net loss per share attributable to common stockholders because their impact would have been antidilutive for the period presented:

	As of March 31, 2024	As of March 31, 2023
Stock options	5,794,718	6,523,783
Restricted stock units	2,758,656	1,420,135

NOTE 8. STOCK-BASED COMPENSATION

Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan ("ESPP") provides participating employees with the opportunity to purchase the Company's common stock at 85% of the market price at the lesser of the date the purchase right is granted or exercisable. Eligible employees can contribute up to 15% of their gross base earnings for purchases under the ESPP through regular payroll deductions, limited to $25 thousand worth of the Company's shares of common stock for each calendar year in which the purchase right is outstanding. The Company currently holds offerings consisting of six-month periods commencing on January 1st and July 1st of each calendar year, with a single purchase date at the end of the purchase period on June 30th and December 31st of each calendar year.

The Company did not issue any shares upon exercise of purchase rights during the three months ended March 31, 2024 and 2023. The Company recognizes compensation expense on a straight-line basis over the service period. During the three months ended March 31, 2024 and 2023, the Company recognized $80 and $122, respectively, of compensation expense related to the ESPP. Stock-based compensation expenses are recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Stock Options

The following summarizes the Company's stock option plan and the activity for the three months ended March 31, 2024.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Outstanding, December 31, 2023	5,943,898	$ 10.28	6.53
Granted	—	—	
Exercised or released	(48,750)	6.11	
Forfeited or expired	(100,430)	13.79	
Outstanding, March 31, 2024	5,794,718	$ 10.25	6.34
Exercisable, March 31, 2024	4,461,561	$ 8.79	5.96
Vested and expected to vest at March 31, 2024	5,790,110	$ 10.25	6.34

(in thousands, except share and per share data)

During the three months ended March 31, 2024 and 2023, the Company recognized $935 and $1,756, respectively, of compensation expense related to stock options. Stock-based compensation expenses are recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Restricted Stock Units

The following table summarizes the Company's restricted stock units activity for the three months ended March 31, 2024:

	Restricted Stock Units	Weighted-Average Fair Value
Outstanding, December 31, 2023	1,317,402	$ 17.06
Granted	1,315,860	12.94
Vested	(106,564)	17.87
Forfeited or expired	(9,923)	16.08
Outstanding, March 31, 2024	2,516,775	$ 14.87
Vested and expected to vest at March 31, 2024	2,414,023	$ 14.94

During the three months ended March 31, 2024 and 2023, the Company recognized $2,153 and $1,426, respectively, of compensation expense related to RSUs. Stock-based compensation expenses are recorded in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and Comprehensive Loss.

Performance Share Units

On March 8, 2024, the Company granted 241,881 performance shares to certain executives which will vest based on the Company's achievement level relative to Adjusted Free Cash Flow for the trailing twelve months ending December 31, 2026. Adjusted Free Cash Flow is defined as Total Operating Cash Flow plus Investing Cash Flow adjusted for certain nonrecurring items. Upon achievement of the minimum threshold performance metric, the grantee may earn a pro rata portion of their respective target shares and up to 200% of their target shares upon maximum achievement.

The performance shares based on Adjusted Free Cash Flow for the trailing twelve months ending December 31, 2026, have a performance condition. The probability of achieving the performance condition is assessed at each reporting period. If it is deemed probable that the performance condition will be met, compensation cost will be recognized based on the closing price per share of the Company's common stock on the date of the grant multiplied by the number of awards expected to be earned. If it is deemed that it is not probable that the performance condition will be met, the Company will discontinue the recognition of compensation cost and any compensation cost previously recorded will be reversed. At March 31, 2024, achievement of the performance condition for the performance shares was deemed probable, and the expense recorded in the current period was immaterial.

NOTE 9. INCOME TAXES

The effective tax rates for the three months ended March 31, 2024 and 2023 are as follows:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Effective tax rate	(1.492%)	0.778%

For the three months ended March 31, 2024 and 2023, the Company recorded income tax expense of $224 and income tax benefit of $71, respectively.

The Company's 2024 and 2023 income tax expense and rates differed from the amount of income tax determined by applying the U.S. Federal income tax rate to pre-tax income primarily due to the U.S., Finland, Germany and Italy jurisdictions that have a full valuation allowance recorded on deferred tax assets. In addition, the tax rate is lower than the U.S. statutory federal tax rate as a result of foreign earnings that are taxed at lower tax rates.

The Company continues to monitor the realization of its deferred tax assets and assesses the need for a valuation allowance. The Company analyzes available positive and negative evidence to determine if a valuation allowance is needed based on the weight of the evidence. This objectively verifiable evidence includes the current & prior two years' profit and loss positions after considering pre-tax book income plus or minus permanent adjustments as well as other positive & negative evidence available. This process requires management to make estimates, assumptions, and judgments that are uncertain in nature. The Company has established a valuation allowance with respect to deferred tax assets in the U.S., Finland, Germany, and Italy and continues to monitor and assess potential valuation allowances in all its jurisdictions.

(in thousands, except share and per share data)

NOTE 10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is involved in various lawsuits, claims, inquiries, and other regulatory and compliance matters, most of which are routine to the nature of our business. When it is probable that a loss will be incurred and where a range of the loss can be reasonably estimated, the best estimate within the range is accrued. When the best estimate within the range cannot be determined, the low end of the range is accrued. The ultimate resolution of these claims could affect future results of operations should the exposure be materially different from the estimates or should liabilities be incurred that were not previously accrued. Potential insurance reimbursements are not offset against potential liabilities.

As of March 31 2024, the Company is not involved in any legal proceedings that could have a material adverse effect on its condensed consolidated financial position.

NOTE 11. RELATED PARTY TRANSACTIONS

The Company has a license agreement dated July 1, 2017 for certain intellectual property with an entity that is affiliated with one of the directors of the Company, under which the Company pays a royalty of four percent (4%) of net revenue related to the licensed intellectual property for the 15 years following the date of first sale, including a minimum annual payment of $250. The term of the agreement is 20 years and it automatically renews for five-year periods thereafter. Payments to the entity under this license agreement totaled $146 and $45 for the three months ended March 31, 2024 and 2023, respectively. Amounts payable to this entity as of March 31, 2024 and December 31, 2023 were $63 and $155, respectively.

NOTE 12. SEGMENT AND GEOGRAPHIC INFORMATION

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, which is our Chief Executive Officer, in deciding how to allocate resources and in assessing performance. We manage our business globally within one operating segment in accordance with ASC Topic 280, Segment Reporting (“ASC 280”). Segment information is consistent with how management reviews the business, makes investing and resource allocation decisions and assesses operating performance.

The following table represents total net revenue by geographic area, based on the location of the customer for the three months ended March 31, 2024 and 2023, respectively.

	Three Months Ended March 31, 2024	2023
United States	$ 51,051	$ 44,981
International	10,031	7,055
Total net revenue	$ 61,082	$ 52,036

No individual country with net revenue originating outside of the United States accounted for more than 10% of consolidated net revenue for three months ended March 31, 2024 and 2023.

The following table represents total non-current assets, excluding deferred taxes, by geographic area as of March 31, 2024 and December 31, 2023, respectively.

	March 31, 2024	December 31, 2023
United States	$ 92,221	$ 89,531
Finland	24,937	25,032
Other International	9,366	9,617
Total assets	$ 126,524	$ 124,179

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and related notes thereto included in Part I-Item 1 of this Quarterly Report on Form 10-Q. This discussion and other parts of this report contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions that are based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those discussed in these forward-looking statements. See "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q.

Overview

We are a leading medical device company exclusively focused on the foot and ankle orthopedic market and are dedicated to improving patient lives. Our innovative orthopedic solutions, procedural approaches and instrumentation cover a wide range of foot and ankle ailments including fracture fixation, forefoot, ankle, flatfoot or progressive collapsing foot deformity ("PCFD"), charcot foot and orthobiologics. To treat these painful, debilitating or even life-threatening conditions, we provide a comprehensive portfolio of solutions that includes surgical implants and disposables, as well as surgical instrumentation. We design each of our products with both the patient and surgeon in mind, with the goal of improving outcomes, reducing ailment recurrence and complication rates, and making the procedures simpler, consistent and reproducible. We believe our passion, expertise, and exclusive focus in the foot and ankle market has allowed us to better understand the needs of our patients and physicians, which has enabled us to create innovations and enhanced solutions that disrupt and transform the foot and ankle market. As a result, we have experienced significant growth and momentum in our business.

During the first quarter of 2024, our sales increased as a result of new product launches in our charcot and flatfoot segments, higher surgical volume and sales force expansion. As a result, we achieved net revenue growth of 17% during the three months ended March 31, 2024, as compared to the corresponding prior year period.

Our gross profit margin was 80%, a decrease from the prior year period driven primarily by increased supplier costs, changes in product mix in the United States and increased revenue from International which has lower average selling prices.

Adjusted EBITDA was negative $5.5 million for the three months ended March 31, 2024, compared to negative $1.4 million for the three months ended March 31, 2023. The decrease in Adjusted EBITDA is primarily attributable to an increase in operating expenses, partially offset by an increase in gross profit.

Non-GAAP Financial Measures

Use of Non-GAAP Financial Measures and Their Limitations

In addition to our results and measures of performance determined in accordance with U.S. GAAP, we believe that certain non-GAAP financial measures are useful in evaluating and comparing our financial and operational performance over multiple periods, identifying trends affecting our business, formulating business plans and making strategic decisions.

Adjusted EBITDA is a key performance measure that our management uses to assess our financial performance and is also used for internal planning and forecasting purposes.

We believe that Adjusted EBITDA, together with a reconciliation to net loss, helps identify underlying trends in our business and helps investors make comparisons between our company and other companies that may have different capital structures, tax rates, or different forms of employee compensation. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to a key financial metric used by our management in its financial and operational decision-making. Our use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider these measures in isolation or as a substitute for analysis of our financial results as reported under U.S. GAAP. Some of these potential limitations include:

- other companies, including companies in our industry which have similar business arrangements, may report Adjusted EBITDA, or similarly titled measures but calculate them differently, which reduces their usefulness as comparative measures;
- although depreciation and amortization expenses are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditures for such replacements or for new capital expenditure requirements;

- Adjusted EBITDA also does not reflect changes in, or cash requirements for, our working capital needs or the potentially dilutive impact of stock-based compensation; and
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt that we may incur.

Because of these and other limitations, you should consider our non-GAAP measures only as supplemental to other GAAP-based financial measures. For a full reconciliation of Adjusted EBITDA to the most comparable GAAP financial measure, see “Reconciliation Between GAAP and Non-GAAP Measure.

Reconciliation Between GAAP and Non-GAAP Measure

We define Adjusted EBITDA as earnings (loss) before interest expense, income tax expense (benefit), depreciation and amortization, stock-based compensation expense, employee stock purchase plan expense, non-recurring expenses and certain other non-cash expenses. For a full reconciliation of Adjusted EBITDA for the three months ended March 31, 2024 and 2023 to the most comparable GAAP financial measure, refer to the presentation below.

	Three Months Ended March 31, 2024	2023
	(in thousands)	
Net loss	$ (15,234)	$ (9,052)
Interest expense, net	2,622	1,205
Income tax expense (benefit)	224	(71)
Depreciation and amortization expense	4,258	3,117
Stock based compensation expense	3,088	3,182
Employee stock purchase plan expense	80	122
Change in fair value [1]	(519)	80
Adjusted EBITDA	$ (5,481)	$ (1,417)

[1] Represents non-cash change in the fair value of our interest rate swap contract for the three months ended March 31, 2024 and earnout liability for the three months ended March 31, 2023.

Components of Our Results of Operations

Net Revenue

We derive our revenue from the sale of our foot and ankle orthopedic solutions, primarily implants. We also record as revenue any amounts billed to customers for shipping costs and record as cost of goods sold the actual shipping costs. We have elected to exclude from the measurement of the transaction price all taxes, such as sales, use, value-added, assessed by government authorities and collected from a customer. Therefore, revenue is recognized net of such taxes. In addition, we record revenue net of estimated discounts and other price concessions. No single customer accounted for 10% or more of our net revenue in the three months ended March 31, 2024 and 2023. We expect our net revenue to increase in the foreseeable future as we expand our sales territories, add new customers and increase the utilization of our products by our existing customers, though net revenue may fluctuate from quarter to quarter due to a variety of factors, including availability of reimbursement, the size and success of our sales force, the number of hospitals and physicians who are aware of and use our products and seasonality.

Cost of Goods Sold

Cost of goods sold consists primarily of finished products purchased from third-party suppliers, shipping costs, excess and obsolete inventory adjustments and royalties. Implants are manufactured to our specifications primarily by third-party suppliers in the United States. Cost of goods sold is recognized at the time the implant is used in surgery and the related revenue is recognized. Prior to use in surgery, the cost of our implants is recorded as inventories, net in our condensed consolidated balance sheets. Cost of goods sold is expected to increase due primarily to increased sales volume.

We calculate gross profit as net revenue less cost of goods sold, and gross margin as gross profit divided by net revenue. We expect our gross profit to increase in the foreseeable future as our net revenue grows, though our gross profit and gross margin have been and will continue to be affected by a variety of factors, primarily average selling prices, third-party manufacturing costs, change in mix of customers, excess and obsolete inventory adjustments, royalties and seasonality of our business. Our gross margin is higher for products we sell in the United States versus internationally due to higher average selling prices. We expect our gross margin to fluctuate from period to period, however, based upon the factors described above and seasonality.

Operating Expenses

Research and Development

Research and development expense is comprised of engineering costs and research programs related to new product and sustaining product development activities, clinical studies and trials expenses, quality and regulatory expenses, and salaries and benefits related to research and development functions. We maintain a procedurally focused approach to product development and have projects underway to add new systems across multiple foot and ankle indications and to add additional functionality to our existing systems. We expect our research and development expenses to increase as we hire additional personnel to develop new product offerings and product enhancements.

Selling, General, and Administrative

Selling, general, and administrative expenses consist primarily of commissions paid to U.S. sales representatives, salaries, bonuses, and benefits related to selling, marketing, and general and administrative functions, and stock-based compensation. In addition, selling, general, and administrative expenses consist of the costs associated with marketing initiatives, physician and sales force medical education programs, surgical instrument depreciation, travel expenses, professional services fees (including legal, finance, audit and tax fees), insurance costs, facility expenses and other general corporate expenses.

We expect selling, general, and administrative expenses to continue to increase in the foreseeable future as we continue to grow our business. We also expect our administrative expenses, including stock-based compensation expense, to increase as we increase our headcount and expand our facilities and business processes to support our operations as a public company. Our selling, general and administrative expenses may fluctuate from period to period due to the seasonality of our business and as we continue to add direct sales territory managers in new territories.

Other Income (Expense)

Other Income (Expense), net

Other income (expense) consists primarily of changes in fair value related to earn-out liabilities and our interest rate swap contract.

Interest Expense, net

Interest expense consists of interest incurred, amortization of financing costs and interest income earned during the reported periods.

Results of Operations

For the Three Months Ended March 31, 2024 and 2023

The following table summarizes our results of operations for the periods presented:

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
	(in thousands)			
Net revenue	$ 61,082	$ 52,036	$ 9,046	17%
Cost of goods sold	12,186	8,906	3,280	37%
Gross profit	48,896	43,130	5,766	13%
Operating expenses:				
Research and development costs	7,584	7,049	535	8%
Selling, general, administrative	54,215	43,820	10,395	24%
Total operating expenses	61,799	50,869	10,930	21%
Operating loss	(12,903)	(7,739)	(5,164)	67%
Other income (expense):				
Other income (expense), net	515	(179)	694	*
Interest expense, net	(2,622)	(1,205)	(1,417)	*
Total other expense	(2,107)	(1,384)	(723)	(52)%
Income tax expense (benefit)	224	(71)	295	*
Net loss	$ (15,234)	$ (9,052)	$ (6,182)	(68)%

* Not Meaningful

The following table represents total net revenue by geographic area, based on the location of the customer for the three months ended March 31, 2024 and 2023, respectively.

	Three Months Ended March 31,	
	2024	2023
	(in thousands)	
United States	$ 51,051	$ 44,981
International	10,031	7,055
Total net revenue	$ 61,082	$ 52,036

Net Revenue. Net revenue increased $9.0 million, or 17%, from $52.0 million during the three months ended March 31, 2023 to $61.1 million during the corresponding period in 2024. Strengthening of the U.S. dollar reduced net revenue growth for the three months ended March 31, 2024, by less than 1% as compared to the prior year. U.S. net revenue was $51.1 million for the three months ended March 31, 2024, representing growth of 14% compared to the prior year. U.S. net revenue growth was primarily the result of new product launches in our charcot and flatfoot segments, increased surgical volume and sales force expansion. International revenue for the three months ended March 31, 2024, was $10.0 million, representing growth of 42% compared to the prior year. International revenue growth was driven primarily by the United Kingdom and Australia as we continue to focus on growing our international footprint.

Cost of Goods Sold and Gross Profit Margin. Cost of goods sold increased $3.3 million, or 37%, from $8.9 million during the three months ended March 31, 2023, to $12.2 million during the corresponding period in 2024, primarily due to increased variable costs. Gross profit margin for the three months ended March 31, 2024 decreased to 80.0%, compared to 82.9% in the same period of 2023. The decrease in gross profit margin is primarily the result of higher prices from suppliers, changes in product mix in the United States and increased revenue from International which has lower average selling prices.

Research and Development Expenses. Research and development expenses increased $0.5 million, or 8%, from $7.1 million during the three months ended March 31, 2023, to $7.6 million as compared to the corresponding period in 2024. We continue to invest in new product development to improve patient lives through our product pipeline.

Selling, General, and Administrative Expenses. Selling, general and administrative expenses increased $10.4 million, or 24%, from $43.8 million in the three months ended March 31, 2023, to $54.2 million during the corresponding period in 2024. The increase in selling, general, and administrative expenses was primarily driven by increased headcount, annual merit increases, investments in the commercial team, increased variable sales representative commission expense related to net revenue growth, an increase in professional service fees and an increase in depreciation expense.

Other Income, net. Other income increased $0.7 million, from an expense of $0.2 million for the three months ended March 31, 2023, to income of $0.5 million for the three months ended March 31, 2024. The increase in other income is primarily related to the change in fair value of the interest rate swap.

Interest Expense. Interest expense increased $1.4 million, from $1.2 million for the three months ended March 31, 2023, to $2.6 million for the three months ended March 31, 2024, primarily due to higher levels of outstanding debt and higher interest rates on our outstanding debt.

Liquidity and Capital Resources

Our primary sources of capital from inception through March 31, 2024, have been from ongoing operations, private placements of securities, proceeds from our public offerings and the incurrence of indebtedness. As of March 31, 2024, we had cash of $58.2 million and the principal amount of our outstanding consolidated debt aggregated to $114.8 million, of which $0.6 million is classified as current in our Condensed Consolidated Balance Sheet. As of March 31, 2024, we had available borrowing capacity of $50.0 million, comprised of $25.0 million on our Ares Term Loan and $25.0 million on our Ares Revolving Loan.

We believe that our existing cash, additional available borrowing capacity and expected revenues will be sufficient to meet our capital requirements and fund our operations for at least the next 12 months. Our primary short-term needs for capital for our planned operations, which are subject to change, include:

- expanding our research and development initiatives to improve our existing products and develop new products and solutions; and
- continued commercialization efforts and expansion of our sales and marketing infrastructure and programs to drive anticipated sales growth in the United States and elsewhere;

We have based our short-term capital needs and planned operating requirements on assumptions that may prove to be incorrect and we may use all our available capital resources sooner than we expect. Although not anticipated at this time, we may require additional financing to fund our operations and planned growth. We may also seek additional financing opportunistically. We may seek to raise any additional capital through public or private equity offerings or debt financings, credit or loan facilities or a combination of one or more of these funding sources. Additional funds may not be available to us on acceptable terms or at all. If we fail to obtain necessary capital when needed on acceptable terms, or at all, we could be forced to delay, limit, reduce or terminate our product development programs, commercialization efforts or other operations. If we raise additional funds by issuing equity securities, our stockholders will suffer dilution and the terms of any financing may adversely affect the rights of our stockholders. In addition, as a condition to providing additional funds to us, future investors may demand, and may be granted, rights superior to those of existing stockholders. If we raise additional capital through collaborations agreements, licensing arrangements or marketing and distribution arrangements, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product or grant licenses that may not be favorable to us. Debt financing, if available, may involve restrictive covenants limiting our flexibility in conducting future business activities, and, in the event of insolvency, debt holders would be repaid before holders of our equity securities received any distribution of our corporate assets. In addition, market conditions impacting financial institutions could impact our ability to access some or all of our cash, cash equivalents and marketable securities, and we may be unable to obtain alternative funding when and as needed on acceptable terms, if at all.

Cash Flows

The following table sets forth the primary sources and uses of cash for the periods presented:

	Three Months Ended March 31,		Change	
	2024	2023	Amount	%
		(in thousands)		
Net cash (used in) provided by:				
Operating activities	$ (10,993)	$ (14,060)	$ 3,067	22%
Investing activities	(5,778)	(7,552)	1,774	23%
Financing activities	(1,262)	69,367	(70,629)	*
Effect of exchange rate changes on cash	616	(340)	956	*
Net decrease in cash	$ (17,417)	$ 47,415	$ (64,832)	*

* Not Meaningful

Net Cash Used in Operating Activities

Net cash used in operating activities for the three months ended March 31, 2024 was $11.0 million, consisting of net loss of $15.2 million partially offset by non-cash expenses of $6.5 million, which primarily consisted of $4.3 million of depreciation and amortization and $3.1 million of stock-based compensation expense, and negative changes in working capital of $2.3 million. The changes in working capital are comprised of a net inventory increase of $7.0 million and an increase in accounts receivable of $3.1 million, partially offset by an increase in accounts payable of $7.4 million.

Net cash used in operating activities for the three months ended March 31, 2023 was $14.1 million, consisting of net loss of $9.1 million offset by non-cash expenses of $6.8 million, which primarily consisted of $3.2 million of stock-based compensation expense and $3.1 million of depreciation and amortization, and negative changes in working capital of $11.8 million. The changes in working capital included a $9.0 million legal settlement payment and a net inventory increase of $8.4 million, partially offset by an increase in accounts payable of $5.6 million and a reduction in accounts receivable of $0.4 million.

Net Cash Used in Investing Activities

Net cash used in investing activities for the three months ended March 31, 2024 was $5.8 million, consisting primarily of surgical instrumentation purchases.

Net cash used in investing activities for the three months ended March 31, 2023 was $7.6 million, consisting primarily of surgical instrumentation purchases plus other purchases of property, plant and equipment.

Net Cash Provided by Financing Activities

Net cash used in financing activities for the three months ended March 31, 2024 was $1.3 million, consisting primarily of a $1.0 million payment related to the completion of a milestone associated with the Additive Orthopaedics acquisition.

Net cash provided by financing activities for the three months ended March 31, 2023 was $69.4 million, consisting primarily of $68.5 million of proceeds from the issuance of common stock, net of issuance costs related to the Offering on January 30, 2023 and $1.6 million of proceeds from the exercise of stock options.

Critical Accounting Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions for the reported amounts of assets, liabilities, revenue, expenses and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions and any such differences may be material. During the three months ended March 31, 2024, the Company revised the inputs used in estimating the reserve on obsolete and slow-moving inventory to include forecasted sales, in addition to current inventory levels and historical sales.

During the three months ended March 31, 2024, there were no material changes to our critical accounting policies or in the methodology used for estimates from those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, other than the item described above.

Recent Accounting Pronouncements

See Note 2 to our condensed consolidated financial statements included in this quarterly report for recently adopted and recently issued accounting pronouncements not yet adopted and their potential impact to our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The primary objectives of our investment activities are to preserve principal and provide liquidity. In the normal course of business, we are exposed to market risk related to fluctuating interest rates. The Company has both fixed and variable rate debt to manage the impact of these fluctuations. The Company is the fixed rate payor on an interest rate swap contract to help manage some of this risk. Based on our overall interest rate exposure as of March 31, 2024, we do not believe a hypothetical 10 percent change in interest rates on our variable rate indebtedness would have a material effect on our results of operations.

Foreign Currency Risk

Our business is primarily conducted in U.S. dollars. Any transactions that may be conducted in foreign currencies are not expected to have a material effect on our results of operations, financial position or cash flows. As we expand internationally our results of operations and cash flows may become increasingly subject to fluctuations due to changes in foreign currency exchange rates.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(e) under the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Disclosure Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We may in the ordinary course of business face various claims brought by third parties and we may, from time to time, make claims or take legal actions to assert our rights, including intellectual property rights as well as claims relating to employment matters and the safety or efficacy of our products. Any of these claims could cause us to incur substantial costs and, while we generally believe that we have adequate insurance to cover many different types of liabilities, our insurance carriers may deny coverage, may be inadequately capitalized to pay on valid claims, or our policy limits may be inadequate to fully satisfy any associated costs, damage awards or settlements. If this were to happen, the payment of any such awards could have a material adverse effect on our operations, cash flows and financial position. Additionally, any such claims, whether or not successful, could damage our reputation and business. We were not involved in any legal proceedings as of March 31, 2024, that could have a material adverse effect on our business, financial condition, or operating results.

Item 1A. Risk Factors.

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

During the quarter ended March 31, 2024, the following executive officers or directors adopted or terminated a "Rule 10b5-1(c) trading arrangement" or a “non-Rule 10b5-1 trading arrangement” (as each term is defined in Item 408 of Regulation S-K).

- On March 8, 2024, Kristina Wright, a director and our Interim Chief Financial Officer, adopted a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). Ms. Wright’s plan covers the sale of up to 3,651 shares of our common stock between June 7, 2024, and March 7, 2025. Transactions under the plan are based upon pre-established dates and stock price thresholds.
- On March 12, 2024, Matthew Jarboe, our Chief Commercial Officer, adopted a trading plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). Mr. Jarboe’s plan covers the sale of up to 437,500 shares of our common stock between July 1, 2024, and June 30, 2025 (the “2024-2025 Trading Plan”). Transactions under the plan are based upon pre-established dates and stock price thresholds. The 2024-2025 Trading Plan goes into effect following the expiration of Mr. Jarboe’s current trading plan entered into on March 8, 2023, and covers the sale of up to 500,000 shares of our common stock between June 6, 2023, and June 30, 2024 (the “2023-2024 Trading Plan”) based upon pre-established dates and stock price thresholds. The 2024-2025 Trading Plan does not modify or terminate the 2023-2024 Trading Plan in any way and the timing of the two plans does not overlap.

Item 6. Exhibits.

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

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	Exhibit	Date Filed	File Number	
3.1	Amended and Restated Certificate of Incorporation of Paragon 28, Inc.	8-K	3.1	10/19/2021	001-40902	
3.1.1	Certificate of Amendment to amended and Restated Certificate of Incorporation of Paragon 28, Inc.	8-K	3.1	05/19/2023	001-40902	
3.2	Second Amended and Restated Bylaws	8-K	3.2	05/19/2023	001-40902	
4.1	Form of Common Stock Certificate	S-1/A	4.2	10/08/2021	333-259789	
4.2	Amended and Restated Investors' Rights Agreement, dated as of July 28, 2020, by and between Paragon 28, Inc. and the investors party thereto.	S-1	4.3	09/24/2021	333-259789	
10.1	Agreement dated April 3, 2024, by and between Kristina Wright and the Company.	8-K	10.1	04/04/2024	001-40902	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because 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 (embedded within the Inline XBRL document)					

* The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report are deemed furnished and not filed with the U.S. Securities and Exchange Commission and are not to be incorporated by reference into any filing of Paragon 28, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report, irrespective of any general incorporation language contained in such filing.

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.

PARAGON 28, INC.

Date: May 8, 2024	By:	/s/ Albert DaCosta
	Name:	**Albert DaCosta**
	Title:	**Chief Executive Officer (Principal Executive Officer)**
Date: May 8, 2024	By:	/s/ Kristina Wright
	Name:	**Kristina Wright**
	Title:	**Interim Chief Financial Officer (Principal Financial Officer)**

Exhibit 31.1

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

I, Albert DaCosta, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Paragon 28, Inc. (the "registrant");

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(s) 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 generally 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 reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.The registrant's other certifying officer(s) 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.

Date: May 8, 2024

By: /s/ Albert DaCosta
Albert DaCosta
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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

I, Kristina Wright, certify that:

1.I have reviewed this Quarterly Report on Form 10-Q of Paragon 28, Inc. (the "registrant");

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(s) 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 generally 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 reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5.The registrant's other certifying officer(s) 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.

Date: May 8, 2024	By: /s/ Kristina Wright **Kristina Wright** **Interim Chief Financial Officer** **(Principal Financial Officer)**

Exhibit 32.1

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 of Paragon 28, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my 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 respects, the financial condition and result of operations of the Company.

Date: May 8, 2024

By: /s/ Albert DaCosta
Albert DaCosta
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32.2

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 of Paragon 28, Inc. (the “Company”) on Form 10-Q for the period ending March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my 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 respects, the financial condition and result of operations of the Company.

Date: May 8, 2024

By: /s/ Kristina Wright
Kristina Wright
Interim Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.