
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2022

or

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

For the transition period from to

Commission File Number: **001-37799**

Tactile Systems Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

**3701 Wayzata Blvd, Suite 300
Minneapolis, Minnesota 55416**

41-1801204
(I.R.S. Employer
Identification No.)

(Address and zip code of principal executive
offices)

(612) 355-5100

(Registrant's telephone number, including area
code)

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, Par Value \$0.001 Per Share	TCMD	The Nasdaq Stock 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, 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

20,132,081 shares of common stock, par value \$0.001 per share, were outstanding as of July 28, 2022.

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1.	Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35

PART II—OTHER INFORMATION

Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults Upon Senior Securities	36
Item 4.	Mine Safety Disclosures	36
Item 5.	Other Information	36
Item 6.	Exhibits	36

Forward-Looking Information

All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, 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. In some cases, you can identify forward-looking statements by the following words: "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "ongoing," "plan," "potential," "predict," "project," "should," "target," "will," "would," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this Quarterly Report on Form 10-Q. These risks, uncertainties and other factors include, but are not limited to:

- the impacts of the COVID-19 pandemic on our business, financial condition and results of operations, and our inability to mitigate such impacts;
- the adequacy of our liquidity to pursue our business objectives;
- our ability to obtain reimbursement from third-party payers for our products;
- loss or retirement of key executives, including prior to identifying a successor;
- adverse economic conditions or intense competition;
- loss of a key supplier;
- entry of new competitors and products;
- adverse federal, state and local government regulation;
- technological obsolescence of our products;
- technical problems with our research and products;
- our ability to expand our business through strategic acquisitions;
- our ability to integrate acquisitions and related businesses;
- wage and component price inflation;
- the effects of current and future U.S. and foreign trade policy and tariff actions; and
- the inability to carry out research, development and commercialization plans.

You should read the matters described in "Risk Factors" and the other cautionary statements made in our Annual Report on Form 10-K for the year ended December 31, 2021, and in this Quarterly Report on Form 10-Q. We cannot assure you that the forward-looking statements in this report will prove to be accurate and therefore 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 disclosed in the forward-looking statements we make. You are urged to carefully review and consider the various disclosures made by us in this report and in other filings with the Securities and Exchange Commission (the "SEC") that advise of the risks and factors that may affect our business. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we may make.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Tactile Systems Technology, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except share and per share data)	June 30, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 23,350	\$ 28,229
Accounts receivable	49,157	49,478
Net investment in leases	13,346	12,482
Inventories	19,970	19,217
Prepaid expenses and other current assets	1,446	4,141
Total current assets	107,269	113,547
Non-current assets		
Property and equipment, net	5,978	6,750
Right of use operating lease assets	22,628	23,984
Intangible assets, net	52,254	54,081
Goodwill	31,063	31,063
Accounts receivable, non-current	15,343	12,847
Other non-current assets	2,768	1,998
Total non-current assets	130,034	130,723
Total assets	\$ 237,303	\$ 244,270
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 9,110	\$ 5,023
Note payable	2,968	2,960
Earn-out, current	9,800	3,250
Accrued payroll and related taxes	12,144	12,139
Accrued expenses	5,258	5,262
Income taxes payable	11	16
Operating lease liabilities	2,488	2,506
Other current liabilities	4,767	3,305
Total current liabilities	46,546	34,461
Non-current liabilities		
Revolving line of credit, non-current	24,891	24,857
Note payable, non-current	22,463	26,933
Earn-out, non-current	3,950	2,950
Accrued warranty reserve, non-current	2,791	3,108
Income taxes payable, non-current	298	348
Operating lease liabilities, non-current	22,122	23,354
Deferred income taxes	126	32
Total non-current liabilities	76,641	81,582
Total liabilities	123,187	116,043
Commitments and Contingencies (see Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued and outstanding as of June 30, 2022 and December 31, 2021	—	—
Common stock, \$0.001 par value, 300,000,000 shares authorized; 20,132,145 shares issued and outstanding as of June 30, 2022; 19,877,786 shares issued and outstanding as of December 31, 2021	20	20
Additional paid-in capital	126,059	119,962
(Accumulated deficit) retained earnings	(11,963)	8,245
Total stockholders' equity	114,116	128,227
Total liabilities and stockholders' equity	\$ 237,303	\$ 244,270

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

Tactile Systems Technology, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands, except share and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue				
Sales revenue	\$ 51,265	\$ 43,630	\$ 92,435	\$ 79,755
Rental revenue	8,380	7,430	15,188	14,077
Total revenue	59,645	51,060	107,623	93,832
Cost of revenue				
Cost of sales revenue	13,810	12,638	25,890	23,329
Cost of rental revenue	2,612	2,217	4,648	4,068
Total cost of revenue	16,422	14,855	30,538	27,397
Gross profit				
Gross profit - sales revenue	37,455	30,992	66,545	56,426
Gross profit - rental revenue	5,768	5,213	10,540	10,009
Gross profit	43,223	36,205	77,085	66,435
Operating expenses				
Sales and marketing	28,822	20,933	52,752	39,718
Research and development	1,849	1,206	3,369	2,476
Reimbursement, general and administrative	14,894	14,094	31,111	28,303
Intangible asset amortization and earn-out	1,745	48	8,841	98
Total operating expenses	47,310	36,281	96,073	70,595
Loss from operations	(4,087)	(76)	(18,988)	(4,160)
Other expense	(573)	(24)	(1,029)	(34)
Loss before income taxes	(4,660)	(100)	(20,017)	(4,194)
Income tax (benefit) expense	(20)	(1,405)	191	(3,233)
Net (loss) income	\$ (4,640)	\$ 1,305	\$ (20,208)	\$ (961)
Net (loss) income per common share				
Basic	\$ (0.23)	\$ 0.07	\$ (1.01)	\$ (0.05)
Diluted	\$ (0.23)	\$ 0.07	\$ (1.01)	\$ (0.05)
Weighted-average common shares used to compute net (loss) income per common share				
Basic	20,024,798	19,691,156	19,961,999	19,618,759
Diluted	20,024,798	20,047,277	19,961,999	19,618,759

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

Tactile Systems Technology, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)

(In thousands, except share data)	Common Stock		Additional Paid-In Capital	(Accumulated Deficit) Retained Earnings	Total
	Shares	Par Value			
Balances, March 31, 2022	19,939,843	\$ 20	\$ 122,281	\$ (7,323)	\$ 114,978
Stock-based compensation	—	—	2,892	—	2,892
Exercise of common stock options and vesting of performance and restricted stock units	107,028	—	62	—	62
Common shares issued for employee stock purchase plan	85,274	—	824	—	824
Net loss for the period	—	—	—	(4,640)	(4,640)
Balances, June 30, 2022	20,132,145	\$ 20	\$ 126,059	\$ (11,963)	\$ 114,116
Balances, December 31, 2021	19,877,786	\$ 20	\$ 119,962	\$ 8,245	\$ 128,227
Stock-based compensation	—	—	5,121	—	5,121
Exercise of common stock options and vesting of performance and restricted stock units	169,085	—	152	—	152
Common shares issued for employee stock purchase plan	85,274	—	824	—	824
Net loss for the period	—	—	—	(20,208)	(20,208)
Balances, June 30, 2022	20,132,145	\$ 20	\$ 126,059	\$ (11,963)	\$ 114,116
Balances, March 31, 2021	19,639,113	\$ 20	\$ 107,312	\$ 17,790	\$ 125,122
Stock-based compensation	—	—	2,658	—	2,658
Exercise of common stock options and vesting of performance and restricted stock units	101,088	—	2,089	—	2,089
Common shares issued for employee stock purchase plan	42,094	—	1,542	—	1,542
Net income for the period	—	—	—	1,305	1,305
Balances, June 30, 2021	19,782,295	\$ 20	\$ 113,601	\$ 19,095	\$ 132,716
Balances, December 31, 2020	19,492,718	\$ 19	\$ 104,675	\$ 20,056	\$ 124,750
Stock-based compensation	—	—	5,115	—	5,115
Exercise of common stock options and vesting of performance and restricted stock units	268,463	1	3,384	—	3,385
Taxes paid for net share settlement of performance and restricted stock units	(20,980)	—	(1,115)	—	(1,115)
Common shares issued for employee stock purchase plan	42,094	—	1,542	—	1,542
Net loss for the period	—	—	—	(961)	(961)
Balances, June 30, 2021	19,782,295	\$ 20	\$ 113,601	\$ 19,095	\$ 132,716

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

Tactile Systems Technology, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (20,208)	\$ (961)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,015	1,287
Deferred income taxes	94	(3,581)
Stock-based compensation expense	5,121	5,115
Change in fair value of earn-out liability	7,550	—
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	321	1,220
Net investment in leases	(864)	(1,033)
Inventories	(753)	(2,590)
Income taxes	(55)	(780)
Prepaid expenses and other assets	1,925	502
Right of use operating lease assets	106	99
Accounts receivable, non-current	(2,496)	(2,441)
Accounts payable	4,087	855
Accrued payroll and related taxes	5	(1,285)
Accrued expenses and other liabilities	1,252	1,676
Net cash used in operating activities	<u>(900)</u>	<u>(1,917)</u>
Cash flows from investing activities		
Purchases of property and equipment	(331)	(603)
Intangible assets expenditures	(85)	(140)
Net cash used in investing activities	<u>(416)</u>	<u>(743)</u>
Cash flows from financing activities		
Payment on note payable	(4,500)	—
Payment of deferred debt issuance costs	(39)	—
Taxes paid for net share settlement of performance and restricted stock units	—	(1,115)
Proceeds from exercise of common stock options	152	3,385
Proceeds from the issuance of common stock from the employee stock purchase plan	824	1,542
Net cash (used in) provided by financing activities	<u>(3,563)</u>	<u>3,812</u>
Net (decrease) increase in cash and cash equivalents	(4,879)	1,152
Cash and cash equivalents – beginning of period	28,229	47,855
Cash and cash equivalents – end of period	<u>\$ 23,350</u>	<u>\$ 49,007</u>
Supplemental cash flow disclosure		
Cash paid for interest	\$ 448	\$ —
Cash paid for taxes	\$ 28	\$ 1,141
Capital expenditures incurred but not yet paid	\$ —	\$ 8

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

Tactile Systems Technology, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Business and Operations

Tactile Systems Technology, Inc. (“we,” “us,” and “our”) manufactures and distributes medical devices that help control symptoms of lymphedema, a chronic and progressive medical condition. We provide our Flexitouch® and Entre™ systems through our direct sales force for use in the home and sell or rent them through vascular, wound and lymphedema clinics throughout the United States.

On September 8, 2021, we acquired the assets of the AffloVest airway clearance business (“AffloVest Acquisition”) from International Biophysics Corporation (“IBC”), a privately-held company which developed and manufactures AffloVest. AffloVest is a portable, wearable vest that treats patients with chronic respiratory conditions. We sell this device through home medical equipment and durable medical equipment (“DME”) providers throughout the United States.

We were originally incorporated in Minnesota under the name Tactile Systems Technology, Inc. on January 30, 1995. During 2006, we established a merger corporation and subsequently, on July 21, 2006, merged with and into this merger corporation, resulting in our reincorporation as a Delaware corporation. The resulting corporation assumed the name Tactile Systems Technology, Inc. In September 2013, we began doing business as “Tactile Medical”.

Our business is affected by seasonality. In the first quarter of each year, when most patients have started a new insurance year and have not yet met their annual out-of-pocket payment obligations, we experience substantially reduced demand for our products. We typically experience higher revenue in the third and fourth quarters of the year when patients have met their annual insurance deductibles, thereby reducing their out-of-pocket costs for our products, and because patients desire to exhaust their flexible spending accounts at year end. This seasonality applies only to purchases and rentals of our products by patients covered by commercial insurance and is not relevant to Medicare, Medicaid or the Veterans Administration, as those payers either do not have plans that have declining deductibles over the course of the plan year and/or do not have plans that include patient deductibles for purchases or rentals of our products. Further, seasonality trends have been, and may continue to be, significantly different than historical trends as a result of the COVID-19 pandemic and related impacts.

Note 2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including those which are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included.

The results for the six months ended June 30, 2022, are not necessarily indicative of results to be expected for the year ending December 31, 2022, or for any other interim period or for any future year. The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Tactile Systems Technology, Inc. and its wholly owned subsidiary, Swelling Solutions, Inc. All intercompany balances and transactions have been eliminated in consolidation.

Risks and Uncertainties

Coronavirus (COVID-19)

The United States economy in general and our business specifically have been negatively affected by the COVID-19 pandemic. We have seen adverse impacts as it relates to the decline in the number of patients that healthcare facilities and clinics are able to treat due to enhanced safety protocols, particularly during most of 2021 and during the first quarter of 2022. We have also seen staffing challenges, both in our organization and at the clinics we serve, as another consequence of the COVID-19 pandemic. While we saw some level of recovery in the second quarter of 2022, there are no reliable estimates of how long the pandemic will last, whether any recovery will be sustained or will reverse course, the severity of any resurgence of COVID-19 or variant strains of the virus, the effectiveness of vaccines and attitudes towards receiving them, or what ultimate effects the pandemic will have. For that reason, we are unable to reasonably estimate the long-term impact of the pandemic on our business at this time.

Since the onset of COVID-19, we have remained proactive to ensure we continue to adapt to the needs of our employees, clinicians and patients. We cannot assure you these changes to our processes and practices will be successful in mitigating the impact of COVID-19 on our business. We continue to evaluate and, if appropriate, will adopt other measures in the future related to the ongoing safety of our employees, clinicians and patients.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Summary of Significant Accounting Policies

Significant Accounting Policies

There were no material changes in our significant accounting policies during the six months ended June 30, 2022. See Note 3 – “Summary of Significant Accounting Policies” to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, for information regarding our significant accounting policies.

Accounting Pronouncement Not Yet Adopted

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-04, “Reference Rate Reform (Topic 848) — Facilitation of the Effect of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”), addressing the discontinuation of LIBOR, a widely used reference rate for pricing financial products. The ASU is intended to provide optional expedients and exceptions if certain criteria are met when accounting for contracts, hedging relationships and other transactions that reference LIBOR, or another reference rate expected to be discontinued because of reference rate reform. The application and adoption requirements of ASU 2020-04 are optional until December 31, 2022 and vary based on expedients elected. We have not elected any expedients to date and are currently evaluating any potential future impacts on the condensed consolidated financial statements.

Note 4. Acquisitions

On September 8, 2021, we entered into an Asset Purchase Agreement (“AffloVest APA”) to acquire the AffloVest airway clearance business from IBC. Under the terms of the AffloVest APA, we agreed to pay IBC a total of up to \$100.0 million for the purchase of substantially all of the assets related to its branded high frequency chest wall oscillation vest therapy business, other than specifically identified excluded assets. We acquired AffloVest to further expand our position as a leader in treating patients with underserved chronic conditions in the home. The acquired assets included inventory, tooling, intellectual property, permits and approvals, data and records, and customer and supplier information. At closing, \$80.0 million of the purchase price was paid, of which a total of \$0.5 million was deposited into an escrow account at closing for purposes of satisfying certain post-closing purchase price adjustments and indemnification claims. Subsequent to closing, \$0.2 million was returned to us as a result of working capital adjustments. The AffloVest acquisition was funded through a combination of cash on hand and proceeds from borrowings.

Two earn-out payments of up to \$10.0 million each are potentially due to IBC under the AffloVest APA depending on the achievement of specified revenue targets, as follows:

- *Initial Earn-Out*: Equal to 1.5 times the amount by which the AffloVest U.S. revenues in the period from October 1, 2021 to September 30, 2022 (the “Initial Earn-Out Period”) exceed a specified amount; provided that in no event will the payment exceed \$10.0 million; and
- *Second Earn-Out*: Equal to 1.5 times the amount by which the AffloVest U.S. revenues in the period from October 1, 2022 to September 30, 2023 exceed the revenues recognized during the Initial Earn-Out Period; provided that in no event will the payment exceed \$10.0 million.

The fair value of the earn-out as of the acquisition date was \$6.4 million. The fair value of the earn-out, reflecting management’s estimate of the likelihood of achieving these targets, was determined by employing a Monte Carlo Simulation model. This amount and the current versus non-current allocation will be remeasured at the end of each reporting period until the payment requirement ends, with any adjustments reported in income from operations (see Note 15 – “Fair Value Measurements”).

On the date of AffloVest Acquisition, we allocated the assets acquired based on an estimate of their fair values. The following table summarizes the purchase price allocation:

(In millions)	Allocated Fair Value	
Inventories	\$	1.6
Property and equipment ⁽¹⁾		—
Intangible assets		53.5
Goodwill		31.1
Purchase price	\$	<u>86.2</u>

(1) The purchase price included less than \$0.1 million of property and equipment.

The goodwill reflects expected synergies of combining the acquired products and customer information with our existing operations, and is deductible for tax purposes over 15 years.

The following table reflects the allocation of purchase price to the acquired intangible assets and related estimated useful lives:

(In millions)	Allocated Fair Value	Estimated Useful Life
Customer relationships	\$ 31.0	13 years
Developed technology	13.0	11 years
Tradenames	9.5	Indefinite
Total intangible assets	<u>\$ 53.5</u>	

The weighted-average amortization period of the acquired intangible assets was 12.3 years.

The fair market valuations associated with the assets acquired fall within Level 3 of the fair value hierarchy, due to the use of significant unobservable inputs to determine fair value. The fair value measurements were calculated using unobservable inputs, primarily using the income approach, specifically the discounted cash flow method. The amount and timing of future cash flows within our analysis was based on our due diligence models, most recent operational budgets, long-range strategic plans and other estimates.

Note 5. Inventories

Inventories consisted of the following:

<i>(In thousands)</i>	At June 30, 2022	At December 31, 2021
Finished goods	\$ 7,718	\$ 8,242
Component parts and work-in-process	12,252	10,975
Total inventories	<u>\$ 19,970</u>	<u>\$ 19,217</u>

Note 6. Goodwill and Intangible Assets

Goodwill

In the third quarter of fiscal 2021, we completed the AffloVest Acquisition. The purchase price of the AffloVest product line exceeded the net acquisition-date estimated fair value amounts of the identifiable assets acquired and the liabilities assumed by \$31.1 million, which was assigned to goodwill.

Intangible Assets

Our patents and other intangible assets are summarized as follows:

(In thousands)	Weighted-Average Amortization Period	At June 30, 2022		
		Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	\$ 723	\$ 140	\$ 583
Defensive intangible assets	3 years	1,125	678	447
Customer accounts	1 year	125	101	24
Customer relationships	12 years	31,000	1,934	29,066
Developed technology	10 years	13,000	959	12,041
Subtotal		45,973	3,812	42,161
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		593	—	593
Total intangible assets		\$ 56,066	\$ 3,812	\$ 52,254

(In thousands)	Weighted-Average Amortization Period	At December 31, 2021		
		Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	\$ 666	\$ 109	\$ 557
Defensive intangible assets	3 years	1,125	592	533
Customer accounts	1 year	125	89	36
Customer relationships	13 years	31,000	742	30,258
Developed technology	11 years	13,000	368	12,632
Subtotal		45,916	1,900	44,016
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		565	—	565
Total intangible assets		\$ 55,981	\$ 1,900	\$ 54,081

Amortization expense was \$1.0 million and \$0.1 million for the three months ended June 30, 2022 and 2021, and \$1.9 million and \$0.1 million for the six months ended June 30, 2022 and 2021, respectively. Future amortization expenses are expected as follows:

(In thousands)	
2022 (July 1 - December 31)	\$ 1,913
2023	3,795
2024	3,773
2025	3,683
2026	3,619
Thereafter	25,378
Total	\$ 42,161

Note 7. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	At June 30, 2022		At December 31, 2021	
Warranty	\$	2,027	\$	1,851
Travel		714		661
Legal and consulting		611		1,371
In-transit inventory		554		416
Clinical studies		161		113
Sales and use tax		115		106
Other		1,076		744
Total	\$	<u>5,258</u>	\$	<u>5,262</u>

Note 8. Warranty Reserves

The activity in the warranty reserve during and as of the end of the reporting periods presented was as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Beginning balance	\$ 4,995	\$ 4,869	\$ 4,959	\$ 4,841
Warranty provision	354	844	997	1,456
Processed warranty claims	(531)	(596)	(1,138)	(1,180)
Ending balance	<u>\$ 4,818</u>	<u>\$ 5,117</u>	<u>\$ 4,818</u>	<u>\$ 5,117</u>
Accrued warranty reserve, current	\$ 2,027	\$ 1,667	\$ 2,027	\$ 1,667
Accrued warranty reserve, non-current	2,791	3,450	2,791	3,450
Total accrued warranty reserve	<u>\$ 4,818</u>	<u>\$ 5,117</u>	<u>\$ 4,818</u>	<u>\$ 5,117</u>

Note 9. Credit Agreement

On April 30, 2021, we entered into an Amended and Restated Credit Agreement (the "Restated Credit Agreement") with the lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent. The Restated Credit Agreement amended and restated in its entirety our prior credit agreement.

On September 8, 2021, we entered into a First Amendment Agreement (the "Amendment"), which amends the Restated Credit Agreement (as amended by the Amendment, the "Credit Agreement") with the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent. The Amendment, among other things, adds a \$30.0 million incremental term loan to the \$25.0 million revolving credit facility provided by the Restated Credit Agreement. The term loan is reflected on our condensed consolidated financial statements as a note payable. The term loan and the revolving credit facility mature on September 8, 2024. The Credit Agreement provides that, subject to satisfaction of certain conditions, we may increase the amount of the revolving loans available under the Credit Agreement and/or add one or more term loan facilities in an amount not to exceed \$25.0 million in the aggregate, such that the total aggregate principal amount of loans available under the Credit Agreement (including under the revolving credit facility) does not exceed \$80.0 million.

On September 8, 2021, in connection with the closing of the AffloVest Acquisition, we borrowed the \$30.0 million term loan and utilized that borrowing, together with a draw of \$25.0 million under the revolving credit facility and cash on hand, to fund the purchase price.

On February 22, 2022, we entered into a Second Amendment Agreement (the "Second Amendment"), which further amended the Credit Agreement, including with respect to the financial covenants.

The principal of the term loan is required to be repaid in quarterly installments of \$750,000 commencing January 7, 2022, through July 8, 2024, with the remaining outstanding balance due on September 8, 2024. Pursuant to the Second Amendment, we made a mandatory principal prepayment of the term loan of \$3.0 million on February 22, 2022.

As of June 30, 2022, the outstanding balance of the term loan was \$25.5 million and the outstanding balance under the revolving credit facility was \$25.0 million. As of June 30, 2022, there was no availability under our Credit Agreement.

The term loan and amounts drawn under the revolving credit facility bear interest, at our option, at a rate equal to (a) the highest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) LIBOR for an interest period of one month plus 1% (the "Base Rate") plus an applicable margin or (b) LIBOR for an interest period of one, three or six months, at our option, plus the applicable margin. The applicable margin is 0.75% to 2.25% on loans bearing interest at the Base Rate and 1.75% to 3.25% on loans bearing interest at LIBOR, in each case depending on our consolidated total leverage ratio; except that, pursuant to the Second Amendment, during the period commencing on February 22, 2022 and ending on the last day of the fiscal quarter ending June 30, 2023, the applicable margin for LIBOR rate loans is 3.50%. At June 30, 2022, all outstanding borrowings were subject to interest at a rate calculated at LIBOR plus an applicable margin, for an interest rate of 4.49%. Undrawn portions of the revolving credit facility are subject to an unused line fee at a rate per annum from 0.300% to 0.375%, depending on our consolidated total leverage ratio.

Maturities of the term loan for the next three years as of June 30, 2022, are as follows:

<u>(In thousands)</u>	<u>Amount</u>
2022 (July 1 - December 31)	\$ 1,500
2023	3,000
2024	21,000
Total	<u>\$ 25,500</u>

Our obligations under the Credit Agreement are secured by a security interest in substantially all of our and our subsidiaries' assets and are also guaranteed by our subsidiaries. The Credit Agreement contains a number of restrictions and covenants, including that we maintain compliance with a maximum leverage ratio, a minimum fixed charge coverage ratio, a minimum consolidated EBITDA covenant, and a minimum liquidity covenant. As of June 30, 2022, we were in compliance with all financial covenants under the Credit Agreement.

Note 10. Commitments and Contingencies

Lease Obligations

We lease property and equipment under operating leases, typically with terms greater than 12 months, and determine if an arrangement contains a lease at inception. In general, an arrangement contains a lease if there is an identified asset and we have the right to direct the use of and obtain substantially all of the economic benefit from the use of the identified asset. We record an operating lease liability at the present value of lease payments over the lease term on the commencement date. The related right of use ("ROU") operating lease asset reflects rental escalation clauses, as well as renewal options and/or termination options. The exercise of lease renewal and/or termination options are at our discretion and are included in the determination of the lease term and lease payment obligations when it is deemed reasonably certain that the option will be exercised. When available, we use the rate implicit in the lease to discount lease payments to present value; however, certain leases do not provide a readily determinable implicit rate. Therefore, we must estimate our incremental borrowing rate to discount the lease payments based on information available at lease commencement.

We classify our leases as buildings, vehicles or computer and office equipment and do not separate lease and nonlease components of contracts for any of the aforementioned classifications. In accordance with

applicable guidance, we do not record leases with terms that are less than one year on the Condensed Consolidated Balance Sheets.

None of our lease agreements contain material restrictive covenants or residual value guarantees.

Buildings

We lease certain office and warehouse space at various locations in the United States where we provide services. These leases are typically greater than one year with fixed, escalating rents over the noncancelable terms and, therefore, ROU operating lease assets and operating lease liabilities are recorded on the Condensed Consolidated Balance Sheets, with rent expense to be recognized on a straight-line basis over the term of the lease. The remaining lease terms vary from approximately one to eight years as of June 30, 2022.

We entered into a lease (“initial lease”) in October 2018, for approximately 80,000 square feet of office space for our new corporate headquarters in Minneapolis, Minnesota. In December 2018, we amended the initial lease to add approximately 29,000 square feet of additional office space, which is accounted for as a separate lease (“second lease”) in accordance with ASU No. 2016-02, “Leases” (Topic 842) (“ASC 842”). In December 2019, we further amended the lease which extended the expiration date of the initial lease, extended the expiration date of and added approximately 4,000 square feet to the second lease, as well as added approximately 37,000 square feet of additional office space, accounted for as a separate lease (“third lease”) in accordance with ASC 842. The portion of the space covered under the initial lease was placed in service in September 2019. This portion was recognized as an operating lease and included in the ROU operating lease assets and operating lease liabilities on the Condensed Consolidated Balance Sheets. The portion of the space covered under the second lease commenced in September 2020. Finally, the portion of the space covered under the third lease commenced in September 2021.

Vehicles

We lease vehicles for certain members of our field sales organization under a vehicle fleet program whereby the initial, noncancelable lease is for a term of 367 days, thus more than one year. Subsequent to the initial term, the lease becomes a month-to-month, cancelable lease. As of June 30, 2022, we had approximately 16 vehicles with agreements within the initial, noncancelable lease term that are recorded as ROU operating lease assets and operating lease liabilities. In addition to monthly rental fees specific to the vehicle, there are fixed monthly nonlease components that have been included in the ROU operating lease assets and operating lease liabilities. The nonlease components are not significant.

Computer and Office Equipment

We also have operating lease agreements for certain computer and office equipment. The remaining lease terms as of June 30, 2022, ranged from less than one year to approximately four years with fixed monthly payments that are included in the ROU operating lease assets and operating lease liabilities. The leases provide an option to purchase the related equipment at fair market value at the end of the lease. The leases will automatically renew as a month-to-month rental at the end of the lease if the equipment is not purchased or returned.

Lease Position, Undiscounted Cash Flow and Supplemental Information

The table below presents information related to our ROU operating lease assets and operating lease liabilities that we have recorded:

(In thousands)	At June 30, 2022	At December 31, 2021
Right of use operating lease assets	\$ 22,628	\$ 23,984
Operating lease liabilities:		
Current	\$ 2,488	\$ 2,506
Non-current	22,122	23,354
Total	\$ 24,610	\$ 25,860
Operating leases:		
Weighted average remaining lease term	8.2 years	8.6 years
Weighted average discount rate	4.2%	4.2%
Six Months Ended June 30,		
	2022	2021
Supplemental cash flow information for our operating leases:		
Cash paid for operating lease liabilities	\$ 1,814	\$ 1,567
Non-cash right of use assets obtained in exchange for new operating lease obligations	\$ 41	\$ 304

The table below reconciles the undiscounted cash flows for the periods presented to the operating lease liabilities recorded on the Condensed Consolidated Balance Sheet for the periods presented:

(In thousands)		
2022 (July 1 - December 31)	\$	1,761
2023		3,425
2024		3,415
2025		3,516
2026		3,615
Thereafter		13,249
Total minimum lease payments		28,981
Less: Amount of lease payments representing interest		(4,371)
Present value of future minimum lease payments		24,610
Less: Current obligations under operating lease liabilities		(2,488)
Non-current obligations under operating lease liabilities	\$	22,122

Operating lease costs were \$1.0 million and \$0.8 million for the three months ended June 30, 2022 and 2021, respectively. Operating lease costs were \$1.9 million and \$1.7 million for the six months ended June 30, 2022 and 2021, respectively.

Major Vendors

We had purchases from two vendors that accounted for 31% and 26% of our total purchases for the three and six months ended June 30, 2022, respectively. We had purchases from two vendors that accounted for 33% of our total purchases for each of the three and six months ended June 30, 2021.

Purchase Commitments

We issued purchase orders prior to June 30, 2022, totaling \$41.5 million for goods that we expect to receive within the next year.

Retirement Plan

We maintain a 401(k) retirement plan for our employees in which eligible employees can contribute a percentage of their pre-tax compensation. We recorded an expense related to our discretionary contributions to the 401(k) plan of \$0.3 million for each of the three months ended June 30, 2022 and 2021, and \$0.7 million and \$0.6 million for the six months ended June 30, 2022 and 2021, respectively.

Legal Proceedings

From time to time, we are subject to various claims and legal proceedings arising in the ordinary course of business. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

We and certain of our present or former officers have been sued in a purported securities class action lawsuit that was filed in the United States District Court for the District of Minnesota on September 29, 2020, and that is pending under the caption *Brian Mart v. Tactile Systems Technology, Inc., et al.*, File No. 0:20-cv-02074-NEB-BRT (the “Mart lawsuit”). On April 19, 2021, the plaintiff filed an Amended Complaint against us and eight of our present and former officers and directors. Plaintiff seeks to represent a class consisting of investors who purchased our common stock in the market during the time period from May 7, 2018 through June 8, 2020 (“alleged class period”). The Amended Complaint alleges the following claims under the Securities Exchange Act of 1934, as amended (the “Exchange Act”): (1) that we and certain officer defendants made materially false or misleading public statements about our business, operational and compliance policies, and results during the alleged class period in violation of Section 10(b) of the Exchange Act; (2) that we and the individual defendants engaged in a scheme to defraud investors in order to allow the individual defendants to sell our stock in violation of Section 10(b) of the Exchange Act; (3) that the individual defendants engaged in improper insider trading of our stock in violation of Section 20A of the Exchange Act; and (4) that we and the individual defendants are liable under Section 20(a) of the Exchange Act because each defendant is a controlling person. On June 18, 2021, we and the individual defendants filed a motion to dismiss the Amended Complaint. On March 31, 2022, the court granted in part, and denied in part, the defendants’ motion to dismiss. All claims against three individual defendants were dismissed, and most claims against four other individual defendants were dismissed. The Company remains a defendant on alleged Sections 10(b) and 20(a) claims. We are defending the action as it proceeds.

On May 24, 2022, a stockholder derivative lawsuit was filed in the United States District Court for the District of Minnesota, purportedly on behalf of the Company against certain present and former officers and directors and the Company (as a nominal defendant), captioned *Jack Weaver v. Moen, et al.*, File No. 0:22-cv-01403-NEB-BRT. This complaint generally arises out of the same subject matter as the Mart lawsuit and alleges the following claims under the Exchange Act and common law: (1) that the director defendants made materially false or misleading public statements in proxy statements in violation of Section 14(a) of the Exchange Act; (2) that the director defendants’ stock and option awards should be rescinded under Section 29(b) of the Exchange Act; (3) that the officer defendants’ employment contract compensation should be rescinded under Section 29(b) of the Exchange Act; (4) that certain officer defendants are liable for contribution arising out of any liability incurred in the Mart lawsuit, under Sections 10(b) and 21D of the Exchange Act; (5) that the individual defendants breached their fiduciary duties; and (6) that the individual defendants were unjustly enriched. The lawsuit seeks unspecified damages. We are defending the action as it proceeds.

Note 11. Stockholders' Equity

Stock-Based Compensation

Our 2016 Equity Incentive Plan (the “2016 Plan”) authorizes us to grant stock options, stock appreciation rights, restricted stock, stock units and other stock-based awards to employees, non-employee directors and certain consultants and advisors. There were up to 4,800,000 shares of our common stock initially reserved for issuance pursuant to the 2016 Plan. The 2016 Plan provides that the number of shares reserved and available for issuance under the 2016 Plan will automatically increase annually on January 1 of each calendar year, commencing in 2017 and ending on and including January 1, 2026, by an amount equal to the lesser of: (a) 5% of the number of common shares of stock outstanding as of December 31 of the immediately

preceding calendar year, or (b) 2,500,000 shares; provided, however, that our Board of Directors may determine that any annual increase be a lesser number. In addition, all awards granted under our 2007 Omnibus Stock Plan and our 2003 Stock Option Plan that were outstanding when the 2016 Plan became effective and that are forfeited, expired, cancelled, settled for cash or otherwise not issued, will become available for issuance under the 2016 Plan. Pursuant to the automatic increase feature of the 2016 Plan, 972,591 shares were added as available for issuance thereunder on January 1, 2021. Our Board of Directors exercised its prerogative to forego the automatic increase on January 1, 2022. As of June 30, 2022, 5,879,162 shares were available for future grant pursuant to the 2016 Plan.

Upon adoption and approval of the 2016 Plan, all of our previous equity incentive compensation plans were terminated. However, existing awards under those plans continue to vest in accordance with the original vesting schedules and will expire at the end of their original terms.

We recorded stock-based compensation expense of \$2.9 million and \$2.7 million for the three months ended June 30, 2022 and 2021, respectively, and \$5.1 million for each of the six months ended June 30, 2022 and 2021. This expense was allocated as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 112	\$ 173	\$ 214	\$ 284
Sales and marketing expenses	1,224	920	2,251	1,898
Research and development expenses	38	59	121	156
Reimbursement, general and administrative expenses	1,518	1,506	2,535	2,777
Total stock-based compensation expense	<u>\$ 2,892</u>	<u>\$ 2,658</u>	<u>\$ 5,121</u>	<u>\$ 5,115</u>

Stock Options

Stock options issued to participants other than non-employees typically vest over three or four years and typically have a contractual term of seven or ten years. Stock-based compensation expense included in the Condensed Consolidated Statements of Operations for stock options was \$0.6 million and \$1.1 million for the three months ended June 30, 2022 and 2021, respectively, and \$1.4 million and \$2.3 million for the six months ended June 30, 2022 and 2021, respectively. At June 30, 2022, there was approximately \$1.7 million of total unrecognized pre-tax stock option expense under our equity compensation plans, which is expected to be recognized on a straight-line basis over a weighted-average period of 1.7 years.

Our stock option activity for the six months ended June 30, 2022, was as follows:

(In thousands except options and per share data)	Options Outstanding	Weighted- Average Exercise Price Per Share ⁽¹⁾	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value ⁽²⁾
Balance at December 31, 2021	915,224	\$ 39.33	5.0 years	\$ 2,068
Granted	—	\$ —		
Exercised	(90,169)	\$ 1.69		\$ 910
Forfeited	(47,509)	\$ 47.38		
Cancelled/Expired	(54,775)	\$ 46.10		
Balance at June 30, 2022	<u>722,771</u>	\$ 42.99	4.8 years	\$ 45
Options exercisable at June 30, 2022	482,154	\$ 41.52	4.5 years	\$ 45

(1) The exercise price of each option granted during the period shown was equal to the market price of the underlying stock on the date of grant.

(2) The aggregate intrinsic value of options exercised represents the difference between the exercise price of the option and the closing stock price of our common stock on the date of exercise. The aggregate intrinsic value of options outstanding represents the difference between the exercise price of the option and the closing stock price of our common stock on the last trading day of the period.

Options exercisable of 509,575 as of June 30, 2021, had a weighted-average exercise price of \$31.20 per share.

Time-Based Restricted Stock Units

We have granted time-based restricted stock units to certain participants under the 2016 Plan that are stock-settled with common shares. Time-based restricted stock units granted under the 2016 Plan vest over one to three years. Stock-based compensation expense included in the Condensed Consolidated Statements of Operations for time-based restricted stock units was \$1.6 million and \$1.2 million for the three months ended June 30, 2022 and 2021, respectively, and \$3.0 million and \$2.5 million for the six months ended June 30, 2022 and 2021, respectively. At June 30, 2022, there was approximately \$10.5 million of total unrecognized pre-tax compensation expense related to outstanding time-based restricted stock units that is expected to be recognized over a weighted-average period of 2.1 years.

Our time-based restricted stock unit activity for the six months ended June 30, 2022, was as follows:

(In thousands except unit and per unit data)	Units Outstanding	Weighted- Average Grant Date Fair Value Per Unit	Aggregate Intrinsic Value ⁽¹⁾
Balance at December 31, 2021	259,147	\$ 42.32	\$ 4,932
Granted	407,844	\$ 17.05	
Vested	(70,594)	\$ 51.30	
Cancelled	(37,217)	\$ 32.94	
Balance at June 30, 2022	<u>559,180</u>	\$ 23.38	\$ 4,082

(1) The aggregate intrinsic value of restricted stock units outstanding was based on our closing stock price on the last trading day of the period.

Performance-Based Restricted Stock Units

We have granted performance-based restricted stock units ("PSUs") to certain participants under the 2016 Plan. These PSUs have both performance-based and time-based vesting features. The PSUs granted in 2020 would have been earned to the extent performance goals based on revenue and adjusted EBITDA were achieved in 2021, but none were so earned. The PSUs granted in 2021 will be earned if and to the extent performance goals based on revenue and adjusted EBITDA are achieved in 2022. The PSUs granted in 2022 will be earned if and to the extent performance goals based on revenue change and adjusted EBITDA margin are achieved in 2023. The number of PSUs earned will depend on the level at which the performance targets

are achieved and can range from 50% of target if the minimum performance threshold is achieved and up to 150% of target if maximum performance is achieved. One-third of the earned PSUs will vest on the date the Compensation and Organization Committee certifies the number of PSUs earned, and the remaining two-thirds of the earned PSUs will vest on the first anniversary of that certification date. All earned and vested PSUs will be settled in shares of common stock.

Stock-based compensation expense recognized for PSUs was \$0.3 million and \$0.2 million for the three months ended June 30, 2022 and 2021, respectively, and an expense of \$0.1 million and a benefit of \$0.1 million for the six months ended June 30, 2022 and 2021, respectively. At June 30, 2022, there was approximately \$2.5 million of total unrecognized pre-tax compensation expense related to outstanding PSUs that is expected to be recognized over a weighted average period of 2.5 years.

Our performance-based restricted stock unit activity for the six months ended June 30, 2022, was as follows:

<i>(In thousands except unit and per unit data)</i>	Performance- Based Units Outstanding	Weighted- Average Grant Date Fair Value Per Unit	Aggregate Intrinsic Value ⁽¹⁾
Balance at December 31, 2021	54,317	\$ 50.22	\$ 1,034
Granted	131,710	\$ 18.54	
Vested	(1,853)	\$ 19.03	
Cancelled	(20,147)	\$ 23.18	
Balance at June 30, 2022	<u>164,027</u>	<u>\$ 25.11</u>	<u>\$ 1,197</u>

(1) The aggregate intrinsic value of performance-based restricted stock units outstanding was based on our closing stock price on the last trading day of the period.

Employee Stock Purchase Plan

Our employee stock purchase plan ("ESPP"), which was approved by our Board of Directors on April 27, 2016, and by our stockholders on June 20, 2016, allows participating employees to purchase shares of our common stock at a discount through payroll deductions. The ESPP is available to all of our employees and employees of participating subsidiaries. Participating employees may purchase common stock, on a voluntary after-tax basis, at a price equal to 85% of the lower of the closing market price per share of our common stock on the first or last trading day of each stock purchase period. The ESPP provides for six-month purchase periods, beginning on May 16 and November 16 of each calendar year.

A total of 1,600,000 shares of common stock was initially reserved for issuance under the ESPP. This share reserve will automatically be supplemented each January 1, commencing in 2017 and ending on and including January 1, 2026, by an amount equal to the least of (a) 1% of the shares of our common stock outstanding on the immediately preceding December 31, (b) 500,000 shares or (c) such lesser amount as our Board of Directors may determine. Pursuant to the automatic increase feature of the ESPP, 194,518 shares were added as available for issuance thereunder on January 1, 2021. Our Board of Directors exercised its prerogative to forego the automatic increase on January 1, 2022. As of June 30, 2022, 1,623,486 shares were available for future issuance under the ESPP. We recognized stock-based compensation expense associated with the ESPP of \$0.4 million and \$0.2 million for the three months ended June 30, 2022 and 2021, respectively, and \$0.6 million and \$0.4 million for the six months ended June 30, 2022 and 2021, respectively.

Note 12. Revenue

We derive our revenue from the sale and rental of our products to our customers in the United States. The following table presents our revenue, inclusive of sales and rental revenue, disaggregated by product line:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue				
Lymphedema products	\$ 51,634	\$ 51,060	\$ 92,288	\$ 93,832
Airway clearance products	8,011	—	15,335	—
Total	\$ 59,645	\$ 51,060	\$ 107,623	\$ 93,832
Percentage of total revenue				
Lymphedema products	87%	100%	86%	100%
Airway clearance products	13%	— %	14%	— %
Total	100%	100%	100%	100%

Our revenue by channel, inclusive of sales and rental revenue, for the three and six months ended June 30, 2022 and 2021, are summarized in the following table:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Private insurers and other payers	\$ 34,972	\$ 35,348	\$ 61,538	\$ 63,631
Veterans Administration	6,728	7,322	12,363	13,168
Medicare	9,934	8,390	18,387	17,033
Durable medical equipment distributors	8,011	—	15,335	—
Total	\$ 59,645	\$ 51,060	\$ 107,623	\$ 93,832

Our rental revenue is derived from rent-to-purchase arrangements that typically range from three to ten months. As title transfers to the patient, with whom we have the contract, upon the termination of the lease term and because collectability is probable, under ASC 842, these are recognized as sales-type leases. Each rental agreement contains two components, the controller and related garments, both of which are interdependent and recognized as one lease component.

The revenue and associated cost of revenue of sales-type leases are recognized on the lease commencement date and a net investment in leases is recorded on the Condensed Consolidated Balance Sheet. We bill the patients' insurance payers monthly over the duration of the rental term. We record the net investment in leases and recognize revenue upon commencement of the lease in the amount of the expected consideration to be received through the monthly payments. Similar to our sales revenue, the transaction price is impacted by multiple factors, including the terms and conditions contracted by third-party payers. As the rental contract resides with the patients, we have elected the portfolio approach, at the payer level, to determine the expected consideration, which considers the impact of early terminations. While the contract is with the patient, in certain circumstances, the third-party payer elects an initial rental period with an option to extend. We assess the likelihood of extending the lease at the onset of the lease to determine if the option is reasonably certain to be exercised. As the lease is short-term in nature, we anticipate collection of substantially all of the net investment within the first year of the lease agreement. Completion of these payments represents the fair market value of the equipment, and as such, interest income is not applicable.

Rental revenue for the three and six months ended June 30, 2022 and 2021, was primarily from private insurers. Sales-type lease revenue and the associated cost of revenue for the three and six months ended June 30, 2022 and 2021, was:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Sales-type lease revenue	\$ 8,380	\$ 7,430	\$ 15,188	\$ 14,077
Cost of sales-type lease revenue	2,612	2,217	4,648	4,068
Gross profit	\$ 5,768	\$ 5,213	\$ 10,540	\$ 10,009

Note 13. Income Taxes

We record our interim provision for income taxes by applying our estimated annual effective tax rate to our year-to-date pre-tax income and adjusting for discrete tax items recorded in the period. Deferred income taxes result from temporary differences between the reporting of amounts for financial statement purposes and income tax purposes. These differences relate primarily to different methods used for income tax reporting purposes, including for depreciation and amortization, warranty and vacation accruals, and deductions related to allowances for doubtful accounts receivable and inventory reserves. Our provision for income taxes included current federal and state income tax expense, as well as deferred federal and state income tax expense.

The effective tax rate for the three months ended June 30, 2022, was a benefit of 0.4%, compared to a benefit of 1,405% for the three months ended June 30, 2021. The primary driver of the change in our effective tax rate is attributable to recording a benefit in the three months ended June 30, 2021, to recognize a tax credit for a research and development credit study conducted for tax years 2017-2020. We recorded an income tax benefit of \$20 thousand and \$1.4 million for the three months ended June 30, 2022 and 2021, respectively.

The effective tax rate for the six months ended June 30, 2022, was an expense of 1.0%, compared to a benefit of 77.1% for the six months ended June 30, 2021. The primary driver of the change in our effective tax rate is attributable to recording a benefit in the six months ended June 30, 2021, to recognize a tax credit for a research and development credit study conducted for tax years 2017-2020. We recorded an income tax expense of \$0.2 million and a benefit of \$3.2 million for the six months ended June 30, 2022 and 2021, respectively.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority is more-likely-than-not to sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the condensed consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

We are currently under examination by the New York Department of Taxation and Finance for tax years 2017, 2018, and 2019. The examination may lead to proposed adjustments to our taxes or our net operating losses with respect to years under examination as well as subsequent periods. In the event of any future tax assessments, we have elected to record the income taxes and any related interest and penalties as income tax expense on our Condensed Consolidated Statements of Operations. The Company is not under examination in any other jurisdictions.

Note 14. Net (Loss) Income Per Share

The following table sets forth the computation of our basic and diluted net (loss) income per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
(In thousands, except share and per share data)				
Net (loss) income	\$ (4,640)	\$ 1,305	\$ (20,208)	\$ (961)
Weighted-average shares outstanding	20,024,798	19,691,156	19,961,999	19,618,759
Dilutive effect of stock-based awards	—	356,121	—	—
Weighted-average shares used to compute diluted net (loss) income per share	20,024,798	20,047,277	19,961,999	19,618,759
Net (loss) income per share - Basic	\$ (0.23)	\$ 0.07	\$ (1.01)	\$ (0.05)
Net (loss) income per share - Diluted	\$ (0.23)	\$ 0.07	\$ (1.01)	\$ (0.05)

The following common stock equivalents were excluded from the computation of diluted net (loss) income per share for the periods presented because including them would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Restricted stock units	559,180	17,287	559,180	192,857
Common stock options	722,771	433,447	722,771	998,630
Performance stock units	164,027	—	164,027	60,627
Employee stock purchase plan	100,695	33,743	100,695	33,888
Total	<u>1,546,673</u>	<u>484,477</u>	<u>1,546,673</u>	<u>1,286,002</u>

Note 15. Fair Value Measurements

We determine the fair value of our assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. We use a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in non-active markets or other observable inputs (Level 2). The lowest priority is given to unobservable inputs (Level 3).

We have obligations to pay up to \$20.0 million in earn-out payments in cash if certain future U.S. revenues of the AffloVest are met. The earn-out liability was valued by employing a Monte Carlo Simulation model in a risk-neutral framework, which is a Level 3 input. The underlying simulated variable includes recognized revenue. The recognized revenue volatility estimate was based on a study of historical asset volatility for a set of comparable public companies. The model includes other assumptions including the market price of risk, which was calculated as the weighted average cost of capital less the long-term risk-free rate. The earn-out liability will be adjusted to fair value at each reporting date until settled. Changes in fair value will be included in intangible asset amortization and earn-out expenses in our Condensed Consolidated Statements of Operations.

Changes in the earn-out liability measured at fair value using Level 3 inputs were as follows:

(In thousands)	
Earn-out liability at December 31, 2021	\$ 6,200
Addition for acquisition	—
Fair value adjustments	7,550
Earn-out liability at June 30, 2022	<u>\$ 13,750</u>

As of June 30, 2022, the fair value of the earn-out liability totaled \$13.8 million, of which \$4.0 million was non-current.

The following provides information regarding fair value measurements for our earn-out liability as of June 30, 2022, and December 31, 2021, according to the three-level fair value hierarchy:

At June 30, 2022				
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring Fair Value Measurements:				
Earn-out liability	\$ —	\$ —	\$ 13,750	\$ 13,750
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13,750</u>	<u>\$ 13,750</u>

At December 31, 2021				
(In thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Recurring Fair Value Measurements:				
Earn-out liability	\$ —	\$ —	\$ 6,200	\$ 6,200
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,200</u>	<u>\$ 6,200</u>

The carrying amounts of financial instruments such as cash equivalents, accounts receivable, other assets, accounts payable, accrued expenses and other liabilities approximate their related fair values due to the short-term maturities of these items. Non-financial assets, such as equipment and leasehold improvements, and intangible assets are subject to non-recurring fair value measurements if they are deemed impaired.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this report.

Coronavirus (COVID-19)

The United States economy in general and our business specifically have been negatively affected by the COVID-19 pandemic. We have seen adverse impacts as it relates to the decline in the number of patients that healthcare facilities and clinics are able to treat due to enhanced safety protocols, particularly during most of 2021 and during the first quarter of 2022. We have also seen staffing challenges, both in our organization and at the clinics we serve, as another consequence of the COVID-19 pandemic. While we saw some level of recovery in the second quarter of 2022, there are no reliable estimates of how long the pandemic will last, whether any recovery will be sustained or will reverse course, the severity of any resurgence of COVID-19 or variant strains of the virus, the effectiveness of vaccines and attitudes towards receiving them, or what ultimate effects the pandemic will have. For that reason, we are unable to reasonably estimate the long-term impact of the pandemic on our business at this time.

Since the onset of COVID-19, we have remained proactive to ensure we continue to adapt to the needs of our employees, clinicians and patients. However, we cannot assure you these changes to our processes and practices will be successful in mitigating the impact of COVID-19 on our business. We continue to evaluate and, if appropriate, will adopt other measures in the future related to the ongoing safety of our employees, clinicians and patients.

Overview

We are a medical technology company that develops and provides innovative medical devices for the treatment of underserved chronic diseases. Our mission is to help people suffering from chronic diseases live better and care for themselves at home. We focus our efforts on advancing the standard of care in treating underserved chronic diseases in the home setting to improve patient outcomes and quality of life and help control rising healthcare expenditures. Our areas of therapeutic focus are (1) vascular disease, with a goal of advancing the standard of care in treating lymphedema and chronic venous insufficiency, (2) oncology, where lymphedema is a common consequence among cancer survivors and (3) providing airway clearance therapy for those suffering from chronic respiratory conditions. We possess a unique, scalable platform to deliver at-home healthcare solutions throughout the United States. This evolving home care delivery model is recognized by policymakers and insurance payers as a key for controlling rising healthcare costs. Our solutions deliver cost-effective, clinically proven, long-term treatment for people with these chronic diseases.

Our current lymphedema products are the Flexitouch and Entre systems and our airway clearance product is the AffloVest. A predecessor to our Flexitouch system received 510(k) clearance from the U.S. Food and Drug Administration (the "FDA") in July 2002, and we introduced the system to address the many limitations of self-administered home-based manual lymphatic drainage therapy. We began selling our more advanced Flexitouch system after receiving 510(k) clearance from the FDA in October 2006. In September 2016, we received 510(k) clearance from the FDA for the Flexitouch system in treating lymphedema of the head and neck. In June 2017, we announced that we received 510(k) clearance from the FDA for the Flexitouch Plus, the third-generation version of our Flexitouch system. In December 2020, we received 510(k) clearance for two new indications for our Flexitouch Plus system: phlebolympheidema and lipedema. We introduced our Entre system in the United States in February 2013. The Entre system is sold or rented to patients who need a simple pump or who do not yet qualify for insurance reimbursement for an advanced compression device such as our Flexitouch system. Sales and rentals of our lymphedema products represented 86% and 100% of our revenue in the six months ended June 30, 2022 and 2021, respectively.

On September 8, 2021, we acquired the assets of the AffloVest airway clearance product line from IBC, a privately-held company which developed and manufactures AffloVest. AffloVest is a portable, wearable vest that provides airway clearance to treat patients with chronic respiratory conditions such as bronchiectasis or

conditions resulting from neuromuscular disorders. For the six months ended June 30, 2022, sales of AffloVest represented 14% our revenue.

To support the growth of our business, we continue to invest in our commercial infrastructure, consisting of our direct sales force, training resources, reimbursement capabilities and clinical expertise. We market our lymphedema products in the United States using a direct-to-patient and -provider model. The AffloVest device is sold through respiratory durable medical equipment providers throughout the United States that service patients and bill third-party payers for the product. We also employ a small group of respiratory specialists, who educate DME provider representatives, provide product demonstrations for targeted clinicians and support technical questions related to the AffloVest. As of June 30, 2022, we employed a field staff of 286 Tactile employees, made up of sales representatives, as well as managers, who provide support throughout the United States for our lymphedema and respiratory therapies. This compares to 234 as of June 30, 2021.

We invest in our reimbursement function to improve operational efficiencies and enhance individual payer expertise, while continuing our strategic focus of payer development. Our payer relations function focuses on payer policy development, education, contract negotiations, and data analysis. Our reimbursement operations function is responsible for verifying patient insurance benefits, individual patient case development, prior authorization submissions, case follow-up, and appeals when necessary. Since the onset of COVID-19, our reimbursement function has been actively working with Medicare and a broad base of private payers to understand the ever-changing reimbursement criteria being introduced. While the U.S. government's declaration of a public health emergency (PHE) related to the COVID-19 pandemic has relaxed some Medicare criteria for respiratory patients, these circumstances are ever-changing, and the extent to which these changes will remain in place and the impact on our business in the future are not determinable at this time.

We also have a clinical team, consisting of a scientific advisory board, in-house therapists and nurses, and a Chief Medical Officer, that serves as a resource to clinicians and patients and guides the development of clinical evidence in support of our products. Most clinical studies require observation and interaction with clinicians and patients to monitor results and progress. Given the impact of COVID-19, patient recruitment for our clinical studies involving our products and clinical outcomes had previously been suspended in 2020. In 2021, all of our clinical trials resumed research activities, including study visits and new patient enrollments, albeit more slowly than the targeted enrollment rates.

We rely on third party contract manufacturers for the sourcing of parts, the assembly of our controllers and the manufacturing of the garments used with our systems. We conduct final assembly of the garments used with our products, perform quality assurance and ship our products from our facility in Minneapolis, Minnesota. The AffloVest device continued to be manufactured and shipped by IBC on our behalf pursuant to a Transition Services Agreement through April 30, 2022. On May 1, 2022, we began manufacturing and shipping the AffloVest device from our Minnesota-based facility.

To date, our supply chain has not been materially impacted by COVID-19. We continue to receive our product on time and believe that we have enough safety stock to meet our short and mid-term demand. However, we cannot assure you that our supply chain will not be materially impacted in the future or that we will be able to meet any increased demand.

In July 2022, we launched Kylee™ a free mobile app that makes it easier for patients to manage their conditions by tracking treatments and symptoms, as well as having direct access to educational resources.

For the three months ended June 30, 2022, we generated revenue of \$59.6 million and had a net loss of \$4.6 million, compared to revenue of \$51.1 million and a net income of \$1.3 million for the three months ended June 30, 2021. For the six months ended June 30, 2022, we generated revenue of \$107.6 million and had a net loss of \$20.2 million, compared to revenue of \$93.8 million and a net loss of \$1.0 million for the six months ended June 30, 2021. Our primary sources of capital since our initial public offering in 2016 have been from operating income and bank financing.

We operate in one segment for financial reporting purposes.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2022 and 2021

The following table presents our results of operations for the periods indicated:

(In thousands)	Three Months Ended June 30,				Change	
	2022		2021		\$	%
Condensed Consolidated Statement of Operations Data:		% of revenue		% of revenue		
Revenue						
Sales revenue	\$ 51,265	86 %	\$ 43,630	85 %	\$ 7,635	17 %
Rental revenue	8,380	14 %	7,430	15 %	950	13 %
Total revenue	59,645	100 %	51,060	100 %	8,585	17 %
Cost of revenue						
Cost of sales revenue	13,810	23 %	12,638	25 %	1,172	9 %
Cost of rental revenue	2,612	4 %	2,217	4 %	395	18 %
Total cost of revenue	16,422	27 %	14,855	29 %	1,567	11 %
Gross profit						
Gross profit - sales revenue	37,455	63 %	30,992	60 %	6,463	21 %
Gross profit - rental revenue	5,768	10 %	5,213	11 %	555	11 %
Gross profit	43,223	73 %	36,205	71 %	7,018	19 %
Operating expenses						
Sales and marketing	28,822	48 %	20,933	41 %	7,889	38 %
Research and development	1,849	3 %	1,206	2 %	643	53 %
Reimbursement, general and administrative	14,894	25 %	14,094	28 %	800	6 %
Intangible asset amortization and earn- out	1,745	3 %	48	— %	1,697	N.M. %
Total operating expenses	47,310	79 %	36,281	71 %	11,029	30 %
Loss from operations	(4,087)	(6)%	(76)	— %	(4,011)	N.M. %
Other expense	(573)	(1)%	(24)	— %	(549)	N.M. %
Loss before income taxes	(4,660)	(7)%	(100)	— %	(4,560)	N.M. %
Income tax (benefit)	(20)	— %	(1,405)	(3)%	1,385	(99)%
Net (loss) income	\$ (4,640)	(7)%	\$ 1,305	3 %	\$ (5,945)	N.M. %

"N.M." Not Meaningful

(In thousands)	Six Months Ended June 30,				Change	
	2022		2021		\$	%
Consolidated Statement of Operations Data:						
		% of		% of		
		revenue		revenue		
Revenue						
Sales revenue	\$ 92,435	86 %	\$ 79,755	85 %	\$ 12,680	16 %
Rental revenue	15,188	14 %	14,077	15 %	1,111	8 %
Total revenue	107,623	100 %	93,832	100 %	13,791	15 %
Cost of revenue						
Cost of sales revenue	25,890	24 %	23,329	25 %	2,561	11 %
Cost of rental revenue	4,648	4 %	4,068	4 %	580	14 %
Total cost of revenue	30,538	28 %	27,397	29 %	3,141	11 %
Gross profit						
Gross profit - sales revenue	66,545	62 %	56,426	60 %	10,119	18 %
Gross profit - rental revenue	10,540	10 %	10,009	11 %	531	5 %
Gross profit	77,085	72 %	66,435	71 %	10,650	16 %
Operating expenses						
Sales and marketing	52,752	49 %	39,718	42 %	13,034	33 %
Research and development	3,369	3 %	2,476	3 %	893	36 %
Reimbursement, general and administrative	31,111	29 %	28,303	30 %	2,808	10 %
Intangible asset amortization and earn-out	8,841	8 %	98	— %	8,743	N.M. %
Total operating expenses	96,073	89 %	70,595	75 %	25,478	36 %
Loss from operations	(18,988)	(17)%	(4,160)	(4)%	(14,828)	N.M. %
Other expense	(1,029)	(1)%	(34)	— %	(995)	N.M. %
Loss before income taxes	(20,017)	(18)%	(4,194)	(4)%	(15,823)	N.M. %
Income tax expense (benefit)	191	— %	(3,233)	(3)%	3,424	(106)%
Net loss	\$ (20,208)	(18)%	\$ (961)	(1)%	\$ (19,247)	N.M. %

"N.M." Not Meaningful

Revenue

Revenue increased \$8.6 million, or 17%, to \$59.6 million in the three months ended June 30, 2022, compared to \$51.1 million in the three months ended June 30, 2021. The increase in total revenue was attributable to \$8.0 million in sales of the airway clearance product line, which includes the AffloVest product acquired on September 8, 2021, and an increase of \$0.6 million, or 1%, in sales and rentals of the lymphedema product line in the quarter ended June 30, 2022, compared to the 2021 second quarter.

Revenue increased \$13.8 million, or 15%, to \$107.6 million in the six months ended June 30, 2022, compared to \$93.8 million in the six months ended June 30, 2021. The increase in total revenue was attributable to \$15.3 million in sales of the airway clearance product line, which includes the AffloVest product acquired on September 8, 2021, partially offset by a decrease of \$1.5 million, or 2%, in sales and rentals of the lymphedema product line for the six months ended June 30, 2022. The first six months of 2022 revenue from the lymphedema product line was adversely affected by the fact that first quarter 2022 revenue was negatively impacted by the prolonged recovery from COVID-19, including the resurgence due to the Omicron variant during the period, which resulted in restricted access to clinics and hospitals and disrupted the recovery in patient visits versus the pre-COVID environment. In addition, the challenging labor market continued to impact our ability to recruit and retain quality candidates for our direct sales force, particularly during the first quarter of 2022.

Revenue from the Veterans Administration represented 11% and 14% of total revenue in the three months ended June 30, 2022 and 2021, respectively. Revenue from the Veterans Administration represented 12% and 14% of total revenue in the six months ended June 30, 2022 and 2021, respectively. Revenue from Medicare represented 17% and 16% of total revenue in the three months ended June 30, 2022 and 2021, respectively. Revenue from Medicare represented 17% and 18% of total revenue in the six months ended June 30, 2022 and 2021, respectively.

The following table summarizes our revenue by product line for the three and six months ended June 30, 2022 and 2021, both in dollars and percentage of total revenue:

(In thousands)	Three Months Ended June 30,		Change	
	2022	2021	\$	%
Revenue				
Lymphedema products	\$ 51,634	\$ 51,060	\$ 574	1%
Airway clearance products	8,011	—	8,011	N.M.
Total	<u>\$ 59,645</u>	<u>\$ 51,060</u>	<u>\$ 8,585</u>	17%
Percentage of total revenue				
Lymphedema products	87%	100%		
Airway clearance products	13%	0%		
Total	<u>100%</u>	<u>100%</u>		

"N.M." Not Meaningful

(In thousands)	Six Months Ended June 30,		Change	
	2022	2021	\$	%
Revenue				
Lymphedema products	\$ 92,288	\$ 93,832	\$ (1,544)	(2)%
Airway clearance products	15,335	—	15,335	N.M.
Total	<u>\$ 107,623</u>	<u>\$ 93,832</u>	<u>\$ 13,791</u>	15%
Percentage of total revenues				
Lymphedema products	86%	100%		
Airway clearance products	14%	0%		
Total	<u>100%</u>	<u>100%</u>		

"N.M." Not Meaningful

Our business is affected by seasonality. In the first quarter of each year, when most patients have started a new insurance year and have not yet met their annual out-of-pocket payment obligations, we experience substantially reduced demand for our products. We typically experience higher revenue in the third and fourth quarters of the year when patients have met their annual insurance deductibles, thereby reducing their out-of-pocket costs for our products, and because patients desire to exhaust their flexible spending accounts at year end. This seasonality applies only to purchases and rentals of our products by patients covered by commercial insurance and is not relevant to Medicare, Medicaid or the Veterans Administration, as those payers either do not have plans that have declining deductibles over the course of the plan year and/or do not have plans that include patient deductibles for purchases or rentals of our products. Further, seasonality trends have been, and may continue to be, significantly different than historical trends as a result of the COVID-19 pandemic and related impacts.

Cost of Revenue and Gross Margin

Cost of revenue increased \$1.6 million, or 11%, to \$16.4 million in the three months ended June 30, 2022, compared to \$14.8 million in the three months ended June 30, 2021. Cost of revenue increased \$3.1 million, or 11%, to \$30.5 million in the six months ended June 30, 2022, compared to \$27.4 million in the six months ended June 30, 2021. The increase in cost of revenue in both periods was primarily attributable to the additional contribution of AffloVest sales and an increase in inbound freight costs.

The total gross margin was 73% and 71% of sales in the three months ended June 30, 2022 and 2021, respectively, and 72% and 71% of sales in the six months ended June 30, 2022 and 2021, respectively.

Sales and Marketing Expenses

Sales and marketing expenses increased \$7.9 million, or 38%, to \$28.8 million in the three months ended June 30, 2022, compared to \$20.9 million in the three months ended June 30, 2021. The increase was primarily attributable to a:

- \$4.8 million increase in personnel-related compensation expense as a result of the increased headcount in the collective field commercial team;
- \$1.3 million increase in travel and entertainment expense due to eased restrictions on travel;
- \$1.2 million increase related to our annual national sales training meeting;
- and
- \$0.6 million increase for new product introduction.

Sales and marketing expenses increased \$13.0 million, or 33%, to \$52.7 million in the six months ended June 30, 2022, compared to \$39.7 million in the six months ended June 30, 2021. The increase was primarily attributable to a:

- \$8.3 million increase in personnel-related compensation expense as a result of the increased headcount in the collective field commercial team;
- \$2.2 million increase in travel and entertainment expense due to eased restrictions on travel;
- \$1.2 million increase related to our annual national sales training meeting;
- \$0.9 million increase for new product introduction;
- and
- \$0.4 million increase in sales meetings and tradeshow.

Research and Development Expenses

Research and development (“R&D”) expenses increased \$0.6 million, or 53%, to \$1.8 million in the three months ended June 30, 2022, compared to \$1.2 million in the three months ended June 30, 2021, which was primarily attributable to an increase in personnel-related compensation expense, R&D supplies and professional services.

R&D expenses increased \$0.9 million, or 36%, to \$3.4 million in the six months ended June 30, 2022, compared to \$2.5 million in the six months ended June 30, 2021, which was primarily attributable to an increase in personnel-related compensation expense, R&D supplies and professional services.

Reimbursement, General and Administrative Expenses

Reimbursement, general and administrative expenses increased \$0.8 million, or 6%, to \$14.9 million in the three months ended June 30, 2022, compared to \$14.1 million in the three months ended June 30, 2021. This increase was primarily attributable to a:

- \$0.5 million increase in personnel-related compensation expense as a result of increased headcount in our reimbursement operations, payer relations and corporate functions; and
- \$0.3 million increase in occupancy costs, depreciation expense, and legal and professional fees.

Reimbursement, general and administrative expenses increased \$2.8 million, or 10%, to \$31.1 million in the six months ended June 30, 2022, compared to \$28.3 million in the six months ended June 30, 2021. This increase was primarily attributable to a:

- \$1.5 million increase in occupancy costs, depreciation expense, and legal and professional fees; and
- \$1.3 million increase in personnel-related compensation expense as a result of increased headcount in our reimbursement operations, payer relations and corporate functions.

Intangible Asset Amortization and Earn-out Expense

Intangible asset amortization and earn-out expense increased \$1.7 million to \$1.7 million in the three months ended June 30, 2022, compared to \$48 thousand in the three months ended June 30, 2021. The increase in intangible asset amortization and earn-out expense was primarily attributable to the increase in the estimated fair value of our earn-out liability.

Intangible asset amortization and earn-out expense increased \$8.7 million to \$8.8 million in the six months ended June 30, 2022, compared to \$0.1 million in the six months ended June 30, 2021. The increase in intangible asset amortization and earn-out expense was primarily attributable to the increase in the estimated fair value of our earn-out liability.

Other Expense, Net

Other expense, net was \$0.6 million and \$24 thousand for the three months ended June 30, 2022 and 2021, respectively, and was \$1.0 million and \$34 thousand for the six months ended June 30, 2022 and 2021, respectively. Other expense was primarily attributable to an increase in interest expense.

Income Taxes

We recorded an income tax benefit of \$20 thousand and \$1.4 million for the three months ended June 30, 2022 and 2021, respectively. We recorded an income tax expense of \$0.2 million and an income tax benefit of \$3.2 million for the six months ended June 30, 2022 and 2021, respectively. The difference relates to a full valuation allowance being recorded against all deferred tax assets in the current year periods and a tax benefit related to a research and development credit recognized in the second quarter of 2021.

Liquidity and Capital Resources

Cash Flows

At June 30, 2022, our principal sources of liquidity were cash and cash equivalents of \$23.4 million and net accounts receivable of \$64.5 million. This compares to cash and cash equivalents of \$28.2 million and net accounts receivable of \$62.3 million at December 31, 2021.

The following table summarizes our cash flows for the periods indicated:

(In thousands)	Six Months Ended June 30,	
	2022	2021
Net cash (used in) provided by:		
Operating activities	\$ (900)	\$ (1,917)
Investing activities	(416)	(743)
Financing activities	(3,563)	3,812
Net (decrease) increase in cash and cash equivalents	<u>\$ (4,879)</u>	<u>\$ 1,152</u>

Operating Activities

Net cash used in operating activities during the six months ended June 30, 2022, was \$0.9 million, resulting from a net loss of \$20.2 million, which was partially offset by a net increase in operating assets and liabilities of \$3.5 million and non-cash net (loss) income adjustments of \$15.8 million. The non-cash net (loss) income adjustments consisted primarily of \$7.6 million related to a change in fair value of earn-out liability, \$5.1 million of stock-based compensation expense, \$3.0 million of depreciation and amortization expense and \$0.1 million of deferred income tax expense. The uses of cash related to changes in operating assets primarily consisted of increases in accounts receivable of \$2.2 million, net investment in leases of \$0.9 million and inventories of \$0.7 million, partially offset by decreases in prepaid expenses and other assets of \$1.9 million. The changes in operating liabilities consisted of increases in accounts payable of \$4.1 million and accrued expenses and other liabilities of \$1.2 million.

Net cash used in operating activities during the six months ended June 30, 2021, was \$1.9 million, resulting from a net loss of \$1.0 million and a net decrease in operating assets and liabilities of \$3.7 million, which was partially offset by non-cash net income (loss) adjustments of \$2.8 million. The non-cash net income (loss) adjustments consisted primarily of \$5.1 million of stock-based compensation expense, \$3.6 million in deferred taxes and \$1.3 million of depreciation and amortization expense. The uses of cash related to changes in operating assets primarily consisted of increases in inventories of \$2.6 million, accounts receivable of \$1.2 million, net investment in leases of \$1.0 million and income taxes of \$0.8 million, partially offset by a decrease in prepaid expenses and other assets of \$0.5 million. The changes in operating liabilities consisted of increases in accrued expenses of \$1.7 million and accounts payable of \$0.9 million, partially offset by a decrease in accrued payroll and related taxes of \$1.3 million.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2022, was \$0.4 million, consisting of purchases of property and equipment, and patent costs.

Net cash used in investing activities during the six months ended June 30, 2021, was \$0.7 million, consisting of purchases of property and equipment, and patent costs.

Financing Activities

Net cash used by financing activities during the six months ended June 30, 2022, was \$3.6 million, primarily consisting of payments of \$4.5 million made on our term loan, slightly offset by \$1.0 million in proceeds from exercise of common stock options and the issuance of common stock under the ESPP.

Net cash provided by financing activities during the six months ended June 30, 2021, was \$3.8 million, consisting of \$4.9 million in proceeds from exercise of common stock options and the issuance of common stock under the ESPP, partially offset by \$1.1 million in taxes paid for the net share settlement of performance and restricted stock units.

Credit Agreement

On April 30, 2021, we entered into an Amended and Restated Credit Agreement (the "Restated Credit Agreement") with the lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent. The Restated Credit Agreement amended and restated in its entirety our prior credit agreement.

On September 8, 2021, we entered into a First Amendment Agreement (the "Amendment"), which amends the Restated Credit Agreement (as amended by the Amendment, the "Credit Agreement") with the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent. The Amendment, among other things, adds a \$30.0 million incremental term loan to the \$25.0 million revolving credit facility provided by the Restated Credit Agreement. The term loan is reflected on our condensed consolidated financial statements as a note payable. The term loan and the revolving credit facility mature on September 8, 2024. The Credit Agreement provides that, subject to satisfaction of certain conditions, we may increase the amount of the revolving loans available under the Credit Agreement and/or add one or more term loan facilities in an amount not to exceed \$25.0 million in the aggregate, such that the total aggregate principal amount of loans available under the Credit Agreement (including under the revolving credit facility) does not exceed \$80.0 million.

On September 8, 2021, in connection with the closing of the AffloVest Acquisition, we borrowed the \$30.0 million term loan and utilized that borrowing, together with a draw of \$25.0 million under the revolving credit facility and cash on hand, to fund the purchase price.

On February 22, 2022, we entered into a Second Amendment Agreement (the "Second Amendment"), which further amends the Credit Agreement, including with respect to the financial covenants.

The principal of the term loan is required to be repaid in quarterly installments of \$750,000 commencing January 7, 2022, through July 8, 2024, with the remaining outstanding balance due on September 8, 2024. Pursuant to the Second Amendment, we made a mandatory principal prepayment of the term loan of \$3.0 million on February 22, 2022.

As of June 30, 2022, the outstanding balance of the term loan was \$25.5 million and the outstanding balance under the revolving credit facility was \$25.0 million. As of June 30, 2022, there was no availability under our Credit Agreement.

Our obligations under the Credit Agreement are secured by a security interest in substantially all of our and our subsidiaries' assets and are also guaranteed by our subsidiaries. The Credit Agreement contains a number of restrictions and covenants, including that we maintain compliance with a maximum leverage ratio, a

minimum fixed charge coverage ratio, a minimum consolidated EBITDA covenant and a minimum liquidity covenant. As of June 30, 2022, we were in compliance with all financial covenants under the Credit Agreement.

For additional information regarding the Credit Agreement, including interest rates, fees and maturities, see Note 9 – “Credit Agreement” of the condensed consolidated financial statements contained in this report.

Future Cash Requirements

For a discussion of our material estimated future cash requirements under our contractual obligations and commercial commitments, in total and disaggregated into current and long-term, see “Future Cash Requirements” included in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes since December 31, 2021.

Adequacy of Resources

Our future cash requirements may vary significantly from those now planned and will depend on many factors, including:

- the impact and duration of the COVID-19 pandemic on our business;
- sales and marketing resources needed to further penetrate our market;
- expansion of our operations domestically and/or internationally;
- response of competitors to our solutions and applications;
- costs associated with clinical research activities;
- increases in interest rates;
- labor shortages and wage inflation;
- component price inflation;
- costs to develop and implement new products; and
- use of capital for acquisitions or licenses, if any.

Historically, we have experienced increases in our expenditures consistent with the growth in our revenue, operations and personnel, and we anticipate that our expenditures will continue to increase as we expand our business.

Although the impact of the COVID-19 pandemic and other factors such as inflation and rising interest rates are difficult to predict, we believe our cash, cash equivalents and cash flows from operations will be sufficient to meet our working capital, capital expenditure, debt repayment and related interest, and other cash requirements for at least the next twelve months.

Recent Accounting Pronouncements

Refer to Note 3 – “Summary of Significant Accounting Policies” of the condensed consolidated financial statements contained in this report for a description of recently issued accounting pronouncements that are applicable to our business.

Critical Accounting Estimates

Critical accounting estimates are those that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition and results of operations. For additional information, please see the discussion of our most critical accounting estimates under “Critical Accounting Estimates” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion on our market risks, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” included in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no material changes since December 31, 2021.

Item 4. Controls and Procedures.

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 of June 30, 2022. The term “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”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the quarter ended June 30, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Information pertaining to certain legal proceedings in which we are involved can be found in Note 10 – “Commitments and Contingencies” to our condensed consolidated financial statements included in Part I, Item 1 of this report and is incorporated herein by reference.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021, which could materially affect our business, financial condition or future results. There have been no material changes in our risk factors from those disclosed in that report.

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

Recent Sales of Unregistered Securities

(a) Issuances of Preferred Stock

None.

(b) Issuances of Common Stock

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index below.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Incorporated by Reference			Filed Herewith
		Form	Date of Filing	Exhibit Number	
3.1	Amended and Restated Certificate of Incorporation, as amended through May 9, 2019	8-K	05/09/2019	3.2	
3.2	Amended and Restated By-laws, effective March 10, 2021	8-K	03/12/2021	3.1	
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) / 15d-14(a) of the Securities Exchange Act of 1934, as amended				X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) / 15d-14(a) of the Securities Exchange Act of 1934, as amended				X
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. §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. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.1	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022, formatted in Inline XBRL: (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Stockholders' Equity, (iv) Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements				X
104.1	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.1)				X

SIGNATURES

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

Tactile Systems Technology, Inc.

Date: August 1, 2022

By: /s/ Brent A. Moen
Brent A. Moen
Chief Financial 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, Daniel L. Reuvers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc.;
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 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 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/ Daniel L. Reuvers

Daniel L. Reuvers
Chief Executive Officer

Date: August 1, 2022

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

I, Brent A. Moen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc.;
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 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 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/ Brent A. Moen

Brent A. Moen

Chief Financial Officer

Date: August 1, 2022

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

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the "Company") for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Daniel L. Reuvers, 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 respects, the financial condition and results of operations of the Company.

/s/ Daniel L. Reuvers

Daniel L. Reuvers
Chief Executive Officer

Date: August 1, 2022

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

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the "Company") for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Brent A. Moen, Chief Financial 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 respects, the financial condition and results of operations of the Company.

/s/ Brent A. Moen

Brent A. Moen
Chief Financial Officer

Date: August 1, 2022
