
**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: September 30, 2023

or

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

For the transition period from to

Commission File Number: **001-37799**

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

23,497,557 shares of common stock, par value \$0.001 per share, were outstanding as of November 2, 2023.

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	34
Item 4.	Controls and Procedures	34

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	35
Item 3.	Defaults Upon Senior Securities	35
Item 4.	Mine Safety Disclosures	35
Item 5.	Other Information	35
Item 6.	Exhibits	35

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 impact of inflation, rising interest rates or recession;
- the adequacy of our liquidity to pursue our business objectives;
- our ability to obtain reimbursement from third-party payers for our products;
- adverse economic conditions or intense competition;
- price increases for supplies and components;
- wage and component price inflation;
- loss of a key supplier;
- entry of new competitors and products;
- compliance with and changes in federal, state and local government regulation;
- loss or retirement of key executives, including prior to identifying a successor;
- 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;
- the impacts of the COVID-19 pandemic on our business, financial condition and results of operations, and our inability to mitigate such impacts;
- 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, 2022, 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, whether as a result of new information, future events or otherwise. 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)	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 66,036	\$ 21,929
Accounts receivable	43,879	54,826
Net investment in leases	13,603	16,130
Inventories	23,498	23,124
Prepaid expenses and other current assets	4,674	3,754
Total current assets	151,690	119,763
Non-current assets		
Property and equipment, net	5,486	6,077
Right of use operating lease assets	19,303	21,322
Intangible assets, net	47,628	50,375
Goodwill	31,063	31,063
Accounts receivable, non-current	14,636	23,061
Deferred income taxes	20,717	—
Other non-current assets	2,784	3,335
Total non-current assets	141,617	135,233
Total assets	\$ 293,307	\$ 254,996
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 6,402	\$ 9,984
Note payable	2,956	2,968
Earn-out, current	5,575	13,050
Accrued payroll and related taxes	14,784	17,100
Accrued expenses	5,327	9,240
Income taxes payable	2,092	2,336
Operating lease liabilities	2,596	2,500
Other current liabilities	5,886	7,152
Total current liabilities	45,618	64,330
Non-current liabilities		
Revolving line of credit, non-current	16,677	24,916
Note payable, non-current	26,915	20,979
Accrued warranty reserve, non-current	1,781	2,207
Income taxes payable, non-current	443	298
Operating lease liabilities, non-current	19,043	20,866
Total non-current liabilities	64,859	69,266
Total liabilities	110,477	133,596
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 September 30, 2023 and December 31, 2022	—	—
Common stock, \$0.001 par value, 300,000,000 shares authorized; 23,497,557 shares issued and outstanding as of September 30, 2023; 20,252,677 shares issued and outstanding as of December 31, 2022	23	20
Additional paid-in capital	172,115	131,001
Retained earnings (accumulated deficit)	10,692	(9,621)
Total stockholders' equity	182,830	121,400
Total liabilities and stockholders' equity	\$ 293,307	\$ 254,996

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Sales revenue	\$ 58,866	\$ 55,545	\$ 171,459	\$ 147,980
Rental revenue	10,720	9,717	25,312	24,905
Total revenue	69,586	65,262	196,771	172,885
Cost of revenue				
Cost of sales revenue	17,016	15,476	48,523	41,366
Cost of rental revenue	3,211	2,992	9,122	7,640
Total cost of revenue	20,227	18,468	57,645	49,006
Gross profit				
Gross profit - sales revenue	41,850	40,069	122,936	106,614
Gross profit - rental revenue	7,509	6,725	16,190	17,265
Gross profit	49,359	46,794	139,126	123,879
Operating expenses				
Sales and marketing	26,030	26,583	80,538	79,335
Research and development	1,964	1,581	6,030	4,949
Reimbursement, general and administrative	16,449	16,257	46,874	47,369
Intangible asset amortization and earn-out	(3,073)	3,993	(557)	12,834
Total operating expenses	41,370	48,414	132,885	144,487
Income (loss) from operations				
Income (loss) from operations	7,989	(1,620)	6,241	(20,608)
Other expense	(404)	(736)	(2,235)	(1,765)
Income (loss) before income taxes				
Income (loss) before income taxes	7,585	(2,356)	4,006	(22,373)
Income tax (benefit) expense	(14,714)	(77)	(16,307)	114
Net income (loss)				
Net income (loss)	\$ 22,299	\$ (2,279)	\$ 20,313	\$ (22,487)
Net income (loss) per common share				
Basic	\$ 0.95	\$ (0.11)	\$ 0.89	\$ (1.12)
Diluted	\$ 0.94	\$ (0.11)	\$ 0.88	\$ (1.12)
Weighted-average common shares used to compute net income (loss) per common share				
Basic	23,483,269	20,139,944	22,714,574	20,021,966
Diluted	23,848,729	20,139,944	22,987,667	20,021,966

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	Retained Earnings (Accumulated Deficit)	Total
	Shares	Par Value			
Balances, June 30, 2023	23,458,302	\$ 23	\$ 170,347	\$ (11,607)	\$ 158,763
Stock-based compensation	—	—	1,766	—	1,766
Exercise of common stock options and vesting of performance and restricted stock units	39,255	—	2	—	2
Net income for the period	—	—	—	22,299	22,299
Balances, September 30, 2023	<u>23,497,557</u>	<u>\$ 23</u>	<u>\$ 172,115</u>	<u>\$ 10,692</u>	<u>\$ 182,830</u>
Balances, December 31, 2022	20,252,677	\$ 20	\$ 131,001	\$ (9,621)	\$ 121,400
Stock-based compensation	—	—	5,597	—	5,597
Exercise of common stock options and vesting of performance and restricted stock units	249,064	—	13	—	13
Sale of common stock from follow-on public offering, net of offering expenses	2,875,000	3	34,622	—	34,625
Common shares issued for employee stock purchase plan	120,816	—	882	—	882
Net income for the period	—	—	—	20,313	20,313
Balances, September 30, 2023	<u>23,497,557</u>	<u>\$ 23</u>	<u>\$ 172,115</u>	<u>\$ 10,692</u>	<u>\$ 182,830</u>
Balances, June 30, 2022	20,132,145	\$ 20	\$ 126,059	\$ (11,963)	\$ 114,116
Stock-based compensation	—	—	2,560	—	2,560
Exercise of common stock options and vesting of performance and restricted stock units	23,559	—	—	—	—
Net loss for the period	—	—	—	(2,279)	(2,279)
Balances, September 30, 2022	<u>20,155,704</u>	<u>\$ 20</u>	<u>\$ 128,619</u>	<u>\$ (14,242)</u>	<u>\$ 114,397</u>
Balances, December 31, 2021	19,877,786	\$ 20	\$ 119,962	\$ 8,245	\$ 128,227
Stock-based compensation	—	—	7,681	—	7,681
Exercise of common stock options and vesting of performance and restricted stock units	192,644	—	152	—	152
Common shares issued for employee stock purchase plan	85,274	—	824	—	824
Net loss for the period	—	—	—	(22,487)	(22,487)
Balances, September 30, 2022	<u>20,155,704</u>	<u>\$ 20</u>	<u>\$ 128,619</u>	<u>\$ (14,242)</u>	<u>\$ 114,397</u>

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)	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities		
Net income (loss)	\$ 20,313	\$ (22,487)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	4,916	4,670
Deferred income taxes	(20,717)	17
Stock-based compensation expense	5,597	7,681
Loss on disposal of property and equipment and intangibles	3	20
Change in fair value of earn-out liability	(2,475)	10,898
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	10,947	(2,336)
Net investment in leases	2,527	(2,570)
Inventories	(374)	(3,803)
Income taxes	(99)	(55)
Prepaid expenses and other assets	(369)	(349)
Right of use operating lease assets	292	141
Accounts receivable, non-current	8,425	(4,856)
Accounts payable	(3,622)	6,148
Accrued payroll and related taxes	(2,316)	1,436
Accrued expenses and other liabilities	(5,545)	6,799
Net cash provided by operating activities	<u>17,503</u>	<u>1,354</u>
Cash flows from investing activities		
Purchases of property and equipment	(1,424)	(1,731)
Intangible assets expenditures	(117)	(113)
Net cash used in investing activities	<u>(1,541)</u>	<u>(1,844)</u>
Cash flows from financing activities		
Proceeds from issuance of note payable	8,250	—
Payment on earn-out	(5,000)	—
Payments on note payable	(2,250)	(5,250)
Payment on revolving line of credit	(8,250)	—
Payments of deferred debt issuance costs	(125)	(39)
Proceeds from exercise of common stock options	13	152
Proceeds from the issuance of common stock from the employee stock purchase plan	882	824
Proceeds from issuance of common stock at market	34,625	—
Net cash provided by (used in) financing activities	<u>28,145</u>	<u>(4,313)</u>
Net increase (decrease) in cash and cash equivalents	44,107	(4,803)
Cash and cash equivalents – beginning of period	21,929	28,229
Cash and cash equivalents – end of period	<u>\$ 66,036</u>	<u>\$ 23,426</u>
Supplemental cash flow disclosure		
Cash paid for interest	\$ 2,810	\$ 1,433
Cash paid for taxes	\$ 3,006	\$ 29
Capital expenditures incurred but not yet paid	\$ 40	\$ 16

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,” “our,” and the “Company”) manufactures and distributes medical devices for the treatment of patients with underserved chronic diseases at home. We provide our Flexitouch® Plus and Entre™ Plus systems, which help control symptoms of lymphedema, a chronic progressive medical condition, through our direct sales force for use in the home following receipt of prescriptions from 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 manufactured 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”.

On August 2, 2016, we closed the initial public offering of our common stock, which resulted in the sale of 4,120,000 shares of our common stock at a public offering price of \$10.00 per share. We received net proceeds from the initial public offering of approximately \$35.4 million, after deducting underwriting discounts and approximately \$2.9 million of transaction expenses.

On February 27, 2023, we closed on a public offering of 2,875,000 shares of our common stock at a public offering price of \$13.00 per share. We received net proceeds from this offering of \$34.6 million after deducting underwriting discounts, commissions, and offering expenses.

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 have an increasing 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.

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 nine months ended September 30, 2023, are not necessarily indicative of results to be expected for the year ending December 31, 2023, 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, 2022.

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 lingering consequence of the COVID-19 pandemic. While we saw some level of recovery in 2022 and the first nine months of 2023, consequences of the pandemic remain uncertain. Although the effects of the COVID-19 pandemic on our operating results continue to subside, the pandemic could still have an unfavorable effect on our financial position, results of operations and cash flows.

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 nine months ended September 30, 2023. 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, 2022, for information regarding our significant accounting policies.

Accounting Pronouncement Recently Adopted

In December 2022, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2022-06, “Reference Rate Reform (Topic 848) — Facilitation of the Effect of Reference Rate Reform on Financial Reporting” (“ASU 2022-06”), which provides optional expedients and exceptions for applying GAAP to transactions affected by reference rate (e.g., LIBOR) reform if certain criteria are met, for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The ASU deferred the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. We adopted this ASU in the quarter ended June 30, 2023. The adoption of this standard did not have a significant impact on the Company’s 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 and the remaining \$0.3 million was released to IBC. The AffloVest Acquisition was funded through a combination of cash on hand and proceeds from borrowings.

On November 4, 2022, we entered into an Amendment to the AffloVest APA (the "APA Amendment") with IBC, which modifies the terms of the earn-out arrangement under the AffloVest APA, as follows:

- *Initial Earn-Out:* The AffloVest APA provided for an 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.
 - The APA Amendment provides that the calculated amount of the initial earn-out payment is \$10.0 million, of which the Company paid \$5.0 million on November 28, 2022, and \$5.0 million, plus an imputed interest payment of \$250,000, on May 25, 2023.
- *Second Earn-Out:* The AffloVest APA provided for a 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 APA Amendment changes the 1.5 times multiplier to 3.0 times, but still provides that in no event will the second earn-out payment exceed \$10.0 million.
 - Subsequent to September 30, 2023, it was determined that the calculated amount of the second earn-out payment is \$5.6 million, which is payable by the Company on or before November 28, 2023 (see Note 15 – "Fair Value Measurements").

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 is 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").

Note 5. Inventories

Inventories consisted of the following:

<i>(In thousands)</i>	At September 30, 2023	At December 31, 2022
Finished goods	\$ 7,880	\$ 5,100
Component parts and work-in-process	15,618	18,024
Total inventories	\$ 23,498	\$ 23,124

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 September 30, 2023		
		Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	\$ 990	\$ 232	\$ 758
Defensive intangible assets	1 year	1,125	883	242
Customer accounts	—	125	125	—
Customer relationships	11 years	31,000	4,915	26,085
Developed technology	9 years	13,000	2,436	10,564
Subtotal		46,240	8,591	37,649
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		479	—	479
Total intangible assets		<u>\$ 56,219</u>	<u>\$ 8,591</u>	<u>\$ 47,628</u>

(In thousands)	Weighted-Average Amortization Period	At December 31, 2022		
		Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	\$ 897	\$ 173	\$ 724
Defensive intangible assets	2 years	1,126	764	362
Customer accounts	< 1 year	125	114	11
Customer relationships	12 years	31,000	3,127	27,873
Developed technology	10 years	13,000	1,550	11,450
Subtotal		46,148	5,728	40,420
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		455	—	455
Total intangible assets		<u>\$ 56,103</u>	<u>\$ 5,728</u>	<u>\$ 50,375</u>

Amortization expense was \$0.9 million and \$1.0 million for the three months ended September 30, 2023 and 2022, respectively, and \$2.9 million for each of the nine months ended September 30, 2023 and 2022. Future amortization expenses are expected as follows:

(In thousands)	
2023 (October 1 - December 31)	\$ 948
2024	3,792
2025	3,703
2026	3,637
2027	3,629
Thereafter	21,940
Total	\$ 37,649

In the third quarter of 2023, we performed our annual goodwill impairment test utilizing both the qualitative and quantitative approach described in FASB ASU No. 2021-03, "Intangibles—Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events." Based on the testing using the qualitative approach, it was determined that it was not more likely than not that the fair value of the reporting unit was less than the carrying value. As a result, it was not deemed necessary to proceed to the quantitative test and no impairment was recognized.

Note 7. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	At September 30, 2023		At December 31, 2022	
Warranty	\$	1,872	\$	2,005
Travel		1,019		1,121
Legal and consulting		821		730
Clinical studies		385		276
In-transit inventory		379		3,228
Sales and use tax		142		147
Other		709		1,733
Total	\$	5,327	\$	9,240

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Beginning balance	\$ 3,828	\$ 4,818	\$ 4,212	\$ 4,959
Warranty provision	1,228	589	3,128	1,586
Processed warranty claims	(1,403)	(783)	(3,687)	(1,921)
Ending balance	<u>\$ 3,653</u>	<u>\$ 4,624</u>	<u>\$ 3,653</u>	<u>\$ 4,624</u>
Accrued warranty reserve, current	\$ 1,872	\$ 1,732	\$ 1,872	\$ 1,732
Accrued warranty reserve, non-current	1,781	2,892	1,781	2,892
Total accrued warranty reserve	<u>\$ 3,653</u>	<u>\$ 4,624</u>	<u>\$ 3,653</u>	<u>\$ 4,624</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 amended 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, added 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 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. The Second Amendment modified the maximum leverage ratio, the minimum fixed charge coverage ratio and the minimum consolidated EBITDA covenants under the Credit Agreement, and added a minimum liquidity covenant, through the quarter ended June 30, 2023. The Second Amendment also increased the applicable margin for LIBOR rate loans under the Credit Agreement during the period commencing on the date of the Second Amendment and ending on the last day of the fiscal quarter ending June 30, 2023. Pursuant to the Second Amendment, we made a mandatory principal prepayment of the term loan of \$3.0 million on February 22, 2022.

On June 21, 2023, we entered into a Third Amendment Agreement (the “Third Amendment”) that replaced the interest rate benchmark under the Credit Agreement from LIBOR to the term Secured Overnight Financing Rate (“SOFR”). All tenors of term SOFR are subject to a credit spread adjustment of 0.10% (“Adjusted Term SOFR”).

Following the Third Amendment, 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) Adjusted Term SOFR for a one-month tenor plus 1% (the “Base Rate”) plus an applicable margin or (b) Adjusted Term SOFR 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 Adjusted Term SOFR, in each case depending on our consolidated total leverage ratio; except that, pursuant to the Second Amendment and the Third 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 and Adjusted Term SOFR loans, as applicable, was 3.50%. At September 30, 2023, all outstanding borrowings were subject to interest at a rate calculated at Adjusted Term SOFR plus an applicable margin, for an interest rate of 7.72%.

On August 1, 2023, we entered into a Fourth Amendment Agreement (the “Fourth Amendment”), which further amends the Credit Agreement. The Fourth Amendment, among other things, decreased the commitment fees payable under the revolving credit facility under the Credit Agreement such that the undrawn portions of the revolving credit facility are subject to an unused line fee at a rate per annum from 0.125% to 0.200%, depending on our consolidated leverage ratio, and eliminated the language providing that the applicable margin for Adjusted Term SOFR loans was 3.50%, such that the interest rates are in effect as set forth in the above paragraph. The Fourth Amendment also eliminated the liquidity financial covenant and modified the remaining financial covenants to reflect the termination of the temporary covenant relief period that was in place until June 30, 2023 pursuant to the Second Amendment, such that the financial covenants now include a maximum

consolidated total leverage ratio covenant, a minimum consolidated EBITDA covenant and a minimum fixed charge coverage ratio covenant. In addition, the Fourth Amendment provided for an additional term loan in the amount of \$8.25 million, which we used for a paydown of the revolving credit facility. The Fourth Amendment also extended the maturity date of the term loans and revolving credit facility under the Credit Agreement from September 8, 2024, to August 1, 2026.

As of September 30, 2023, we had outstanding borrowings of \$46.8 million under the Credit Agreement, comprised of \$30.0 million under the term loan and \$16.8 million under the revolving credit facility.

The principal of the term loan is required to be repaid in quarterly installments of \$750,000. Maturities of the term loan for the next four years as of September 30, 2023, were as follows:

(In thousands)	Amount
2023 (October 1 - December 31)	750
2024	3,000
2025	3,000
2026	23,250
Total	<u>\$ 30,000</u>

Our obligations under the Credit Agreement are secured by a security interest in substantially all of our and our subsidiary's assets and are also guaranteed by our subsidiary. As of September 30, 2023, the Credit Agreement contained a number of restrictions and covenants, including that we maintain compliance with a maximum total leverage ratio, a minimum fixed charge coverage ratio and a minimum consolidated EBITDA covenant. As of September 30, 2023, 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 non-lease 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 September 30, 2023.

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. In addition to monthly rental fees specific to the vehicle, there are fixed monthly non-lease components that have been included in the ROU operating lease assets and operating lease liabilities. The non-lease components are not significant. As of September 30, 2023, we did not have any vehicles with agreements within the initial, noncancelable lease term that are recorded as ROU operating lease assets and operating lease liabilities.

Computer and Office Equipment

We also have operating lease agreements for certain computer and office equipment. The remaining lease terms as of September 30, 2023, 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 September 30, 2023	At December 31, 2022
Right of use operating lease assets	\$ 19,303	\$ 21,322
Operating lease liabilities:		
Current	\$ 2,596	\$ 2,500
Non-current	19,043	20,866
Total	\$ 21,639	\$ 23,366
Operating leases:		
Weighted average remaining lease term	7.0 years	7.7 years
Weighted average discount rate	4.3%	4.2%
Nine Months Ended September 30,		
	2023	2022
Supplemental cash flow information for our operating leases:		
Cash paid for operating lease liabilities	\$ 2,579	\$ 2,703
Non-cash right of use assets obtained in exchange for new operating lease obligations	\$ 132	\$ 49

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)		
2023 (October 1 - December 31)	\$	869
2024		3,468
2025		3,569
2026		3,642
2027		3,171
Thereafter		10,082
Total minimum lease payments		24,801
Less: Amount of lease payments representing interest		(3,162)
Present value of future minimum lease payments		21,639
Less: Current obligations under operating lease liabilities		(2,596)
Non-current obligations under operating lease liabilities	\$	19,043

Operating lease costs were \$0.9 million for each of the three months ended September 30, 2023 and 2022. Operating lease costs were \$2.7 million and \$2.8 million for the nine months ended September 30, 2023 and 2022, respectively.

Major Vendors

We had purchases from one vendor that accounted for 29% of our total purchases for the three months ended September 30, 2023 and purchases from one vendor that accounted for 26% of our total purchases for the nine months ended September 30, 2023. We had purchases from one vendor that accounted for 24% of our total purchases for the three months ended September 30, 2022 and purchases from two vendors that accounted for 44% of our total purchases for the nine months ended September 30, 2022.

Purchase Commitments

We issued purchase orders prior to September 30, 2023, totaling \$27.7 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 \$0.4 million for each of the three months ended September 30, 2023 and 2022, and \$1.1 million for each of the nine months ended September 30, 2023 and 2022.

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. On November 21, 2022, the Company announced that it entered into a Memorandum of Understanding to settle this matter. The Company does not expect to fund any portion of cash payments made in connection with the \$5 million settlement amount. The settlement does not constitute an admission of liability or wrongdoing by the Company. The settlement is subject to court approval. On February 28, 2023, the parties executed a stipulation of settlement and the plaintiff filed an unopposed motion for preliminary approval of the class settlement with the court. On April 26, 2023, the court issued a minute order indicating the motion would be approved and on May 4, 2023, issued the written order granting the motion for preliminary approval of the settlement. On July 19, 2023, the plaintiff filed a motion for final approval of the settlement. On August 23, 2023, the Court held the hearing on the motion for final approval of the settlement and on August 25, 2023 entered an order granting the motion, bringing the matter to a close.

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 of our 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. In August 2022, the matter was transferred to the United States District Court for the District of Delaware by order granting the Parties Stipulation to Transfer. On February 10, 2023, we filed a motion to dismiss the action. The plaintiff filed an Amended Complaint on March 3, 2023. On March 31, 2023, we filed a motion to dismiss the Amended Complaint, which is pending. On July 31, 2023, the plaintiff filed a Joint Notice of Preliminary Settlement indicating that the parties have reached a non-binding settlement-in-principal on most of the material terms that would resolve all claims between the parties and requested that the Court temporarily stay all deadlines, hearings, and conferences while the parties continue to finalize settlement.

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. Our Board of Directors exercised its prerogative to forego the automatic increase on each of January 1, 2023 and 2022. As of September 30, 2023, 5,773,265 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 \$1.8 million and \$2.6 million for the three months ended September 30, 2023 and 2022, respectively, and \$5.6 million and \$7.7 million for the nine months ended September 30, 2023 and 2022, respectively. This expense was allocated as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cost of revenue	\$ 116	\$ 67	\$ 340	\$ 281
Sales and marketing expenses	634	1,101	2,196	3,352
Research and development expenses	5	54	98	175
Reimbursement, general and administrative expenses	1,011	1,338	2,963	3,873
Total stock-based compensation expense	<u>\$ 1,766</u>	<u>\$ 2,560</u>	<u>\$ 5,597</u>	<u>\$ 7,681</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 \$0.2 million and \$0.6 million for the three months ended September 30, 2023 and 2022, respectively, and \$0.8 million and \$2.0 million for the nine months ended September 30, 2023 and 2022, respectively. At September 30, 2023, there was approximately \$0.4 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 0.9 years.

Our stock option activity for the nine months ended September 30, 2023, 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, 2022	615,307	\$ 43.25	4.7 years	\$ 164
Exercised	(4,432)	\$ 3.04		\$ 96
Forfeited	(24,498)	\$ 47.68		
Cancelled/Expired	(114,932)	\$ 50.57		
Balance at September 30, 2023	<u>471,445</u>	\$ 41.62	4.0 years	\$ 216
Options exercisable at September 30, 2023	400,484	\$ 43.45	3.8 years	\$ 76

(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 402,979 as of September 30, 2022, had a weighted-average exercise price of \$44.18 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 \$1.2 million and \$1.5 million for the three months ended September 30, 2023 and 2022, respectively, and \$3.8 million and \$4.5 million for the nine months ended September 30, 2023 and 2022, respectively. At September 30, 2023, there was approximately \$7.6 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 1.6 years.

Our time-based restricted stock unit activity for the nine months ended September 30, 2023, 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, 2022	590,542	\$ 19.42	\$ 6,779
Granted	378,498	\$ 15.82	
Vested	(236,284)	\$ 19.96	
Cancelled	(114,060)	\$ 20.81	
Balance at September 30, 2023	<u>618,696</u>	\$ 16.75	\$ 8,693

(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 2021 were earned based on the extent to which performance goals based on revenue and adjusted EBITDA were 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.

The PSUs granted in 2023 have three separate performance periods, and one-third of each grant will be earned if and to the extent performance goals based on revenue change and adjusted EBITDA margin are achieved in each of 2023 and 2024 (ranging from 25% to 175% of target), and one-third will be earned if and to the extent performance goals to be established are achieved in 2025. All earned and vested PSUs will be settled in shares of common stock.

Stock-based compensation expense recognized for PSUs was \$0.3 million for each of the three months ended September 30, 2023 and 2022, and \$0.6 million and \$0.5 million for the nine months ended September 30, 2023 and 2022, respectively. At September 30, 2023, there was approximately \$1.7 million of total unrecognized pre-tax compensation expense related to outstanding PSUs that is expected to be recognized over a weighted average period of 2.1 years.

Our PSU activity for the nine months ended September 30, 2023, was as follows:

<i>(In thousands except unit and per unit data)</i>	PSUs Outstanding	Weighted- Average Grant Date Fair Value Per Unit	Aggregate Intrinsic Value ⁽¹⁾
Balance at December 31, 2022	155,618	\$ 25.05	\$ 1,786
Granted	123,575	\$ 15.28	
Vested	(13,842)	\$ 42.70	
Cancelled	(67,119)	\$ 21.50	
Balance at September 30, 2023	<u>198,232</u>	\$ 18.93	\$ 2,785

(1) The aggregate intrinsic value of PSUs 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. Our Board of Directors exercised its prerogative to forego the automatic increase on each of January 1, 2023 and 2022. As of September 30, 2023, 1,438,335 shares were available for future issuance under the ESPP. We recognized stock-based compensation expense associated with the ESPP of \$0.1 million and \$0.2 million for the three months ended September 30, 2023 and 2022, respectively, and \$0.4 million and \$0.7 million for the nine months ended September 30, 2023 and 2022, 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Lymphedema products	\$ 62,506	\$ 54,214	\$ 172,257	\$ 146,502
Airway clearance products	7,080	11,048	24,514	26,383
Total	<u>\$ 69,586</u>	<u>\$ 65,262</u>	<u>\$ 196,771</u>	<u>\$ 172,885</u>
Percentage of total revenue				
Lymphedema products	90%	83%	88%	85%
Airway clearance products	10%	17%	12%	15%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Our revenue by channel, inclusive of sales and rental revenue, for the three and nine months ended September 30, 2023 and 2022, are summarized in the following table:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Private insurers and other payers	\$ 39,376	\$ 36,188	\$ 101,300	\$ 97,726
Veterans Administration	7,259	6,755	20,203	19,118
Medicare	15,871	11,271	50,754	29,658
Durable medical equipment distributors	7,080	11,048	24,514	26,383
Total	<u>\$ 69,586</u>	<u>\$ 65,262</u>	<u>\$ 196,771</u>	<u>\$ 172,885</u>

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 nine months ended September 30, 2023 and 2022, was primarily from private insurers. Sales-type lease revenue and the associated cost of revenue for the three and nine months ended September 30, 2023 and 2022, was:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Sales-type lease revenue	\$ 10,720	\$ 9,717	\$ 25,312	\$ 24,905
Cost of sales-type lease revenue	3,211	2,992	9,122	7,640
Gross profit	<u>\$ 7,509</u>	<u>\$ 6,725</u>	<u>\$ 16,190</u>	<u>\$ 17,265</u>

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 (loss) 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 September 30, 2023, was a benefit of 194.0%, compared to a benefit of 3.4% for the three months ended September 30, 2022. The primary driver of the change in our effective tax rate was attributable to the release of our valuation allowance related to the future realization of deferred tax assets. We recorded an income tax benefit of \$14.7 million and an income tax benefit of \$0.1 million for the three months ended September 30, 2023 and 2022, respectively.

The effective tax rate for the nine months ended September 30, 2023, was a benefit of 407.1%, compared to an expense of 0.5% for the nine months ended September 30, 2022. The primary driver of the change in the Company's effective tax rate was attributable to the release of our valuation allowance related to the future realization of deferred tax assets. We recorded an income tax benefit of \$16.3 million and an income tax expense of \$0.1 million for the nine months ended September 30, 2023 and 2022, respectively.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. As of September 30, 2023, in part because in the current year we achieved three years of cumulative pretax income in the U.S. federal tax jurisdiction, management determined that there is sufficient positive evidence to conclude that it is more likely than not that additional deferred taxes of \$17.9 million are realizable. We therefore reduced the valuation allowance accordingly, which resulted in the increased effective tax rate benefit in the three and nine months ended September 30, 2023 as discussed above.

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.

The Company currently is not under examination in any jurisdictions.

Note 14. Net Income (Loss) Per Share

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

(In thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss)	\$ 22,299	\$ (2,279)	\$ 20,313	\$ (22,487)
Weighted-average shares outstanding	23,483,269	20,139,944	22,714,574	20,021,966
Weighted-average shares used to compute diluted net loss per share	23,848,729	20,139,944	22,987,667	20,021,966
Net income (loss) per share - Basic	\$ 0.95	\$ (0.11)	\$ 0.89	\$ (1.12)
Net income (loss) per share - Diluted	\$ 0.94	\$ (0.11)	\$ 0.88	\$ (1.12)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Restricted stock units	74,972	607,706	190,071	607,706
Common stock options	430,521	613,783	430,521	613,783
Performance stock units	—	164,027	17,392	164,027
Employee stock purchase plan	—	143,526	—	93,592
Total	505,493	1,529,042	637,984	1,479,108

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).

As of September 30, 2023, we had an obligation to pay \$5.6 million in cash under the second, final earn-out payment based on the level of AffloVest U.S. revenues in the period from October 1, 2022 to September 30, 2023. Prior to the determination of the actual amount of the earn-out, 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 included 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 included 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 was adjusted to fair value at each reporting date until the end of the earn-out period. Changes in fair value are included in intangible asset amortization and earn-out expenses in our Condensed Consolidated Statements of Operations. As of September 30, 2023 the AffloVest U.S. revenues were known and the earn-out was no longer subject to a fair value measurement.

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, 2022	\$ 13,050
Payment on earn-out	(5,000)
Fair value adjustments	(2,475)
Earn-out liability at September 30, 2023	<u>\$ 5,575</u>

(In thousands)	
Earn-out liability at December 31, 2021	\$ 6,200
Fair value adjustments	10,898
Earn-out liability at September 30, 2022	<u>\$ 17,098</u>

As of September 30, 2023, the remaining \$5.6 million of the earn-out liability had been earned and is to be paid by the Company on or before November 28, 2023.

There was no remaining contingent earn-out liability as of September 30, 2023. The following provides information regarding fair value measurements for our remaining contingent earn-out liability as of December 31, 2022, according to the three-level fair value hierarchy:

	At December 31, 2022			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(In thousands)				
Recurring Fair Value Measurements:				
Earn-out liability	\$ —	\$ —	\$ 8,050	\$ 8,050
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,050</u>	<u>\$ 8,050</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.

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 Plus and Entre Plus 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 and the second generation, Entre Plus, in March 2023. The Entre Plus 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 Plus system. Sales and rentals of our lymphedema products represented 88% and 85% of our revenue in the nine months ended September 30, 2023 and 2022, 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 manufactured 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 nine months ended September 30, 2023 and 2022, sales of AffloVest represented 12% and 15% of our revenue, respectively.

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 representatives, provide product demonstrations for targeted clinicians and support technical questions related to the AffloVest. As of September 30, 2023, we employed 246 (245 at June 30, 2023) field sales representatives for our lymphedema products and a team of 13 (10 at June 30, 2023) supporting our airway clearance products. This compares to 251 field sales representatives for our lymphedema products and a team of 10 supporting our airway clearance products as of September 30, 2022.

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.

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.

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 Minnesota.

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 September 30, 2023, we generated revenue of \$69.6 million and had net income of \$22.3 million, compared to revenue of \$65.3 million and a net loss of \$2.3 million for the three months ended September 30, 2022. For the nine months ended September 30, 2023, we generated revenue of \$196.8 million and had net income of \$20.3 million, compared to revenue of \$172.9 million and a net loss of \$22.5 million for the nine months ended September 30, 2022. Our primary sources of capital since our initial public offering in 2016 have been from operating income, bank financing and our public offering in February 2023.

We operate in one segment for financial reporting purposes.

Current Economic Conditions and the Effects of Coronavirus (COVID-19)

The lingering effects of the COVID-19 pandemic, as well as general global economic downturns and macroeconomic trends, including heightened inflation, capital market volatility, interest rate fluctuations, increased unemployment and economic slowdown or recession, may result in unfavorable conditions that could negatively affect demand for our products and exacerbate some of the other risks that affect our business, financial condition and results of operations.

The United States economy in general and our business specifically have been negatively affected by the COVID-19 pandemic. From the onset of the pandemic, we have seen declines in the number of patients that healthcare facilities and clinics are able to treat due to enhanced safety protocols, and have also seen staffing challenges, both in our organization and at the clinics we serve. While we saw some level of recovery in 2022 and in the first nine months of 2023, consequences of the pandemic remain uncertain. Although the effects of the COVID-19 pandemic on our operating results continue to subside, the pandemic could still have an unfavorable effect on our financial position, results of operations and cash flows.

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2023 and 2022

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

(In thousands)	Three Months Ended September 30,				Change	
	2023		2022		\$	%
Condensed Consolidated Statement of Operations Data:		% of		% of		
		revenue		revenue		
Revenue						
Sales revenue	\$ 58,866	85 %	\$ 55,545	85 %	\$ 3,321	6 %
Rental revenue	10,720	15 %	9,717	15 %	1,003	10 %
Total revenue	69,586	100 %	65,262	100 %	4,324	7 %
Cost of revenue						
Cost of sales revenue	17,016	24 %	15,476	24 %	1,540	10 %
Cost of rental revenue	3,211	5 %	2,992	4 %	219	7 %
Total cost of revenue	20,227	29 %	18,468	28 %	1,759	10 %
Gross profit						
Gross profit - sales revenue	41,850	61 %	40,069	61 %	1,781	4 %
Gross profit - rental revenue	7,509	10 %	6,725	11 %	784	12 %
Gross profit	49,359	71 %	46,794	72 %	2,565	5 %
Operating expenses						
Sales and marketing	26,030	37 %	26,583	41 %	(553)	(2)%
Research and development	1,964	3 %	1,581	2 %	383	24 %
Reimbursement, general and administrative	16,449	24 %	16,257	25 %	192	1 %
Intangible asset amortization and earn-out	(3,073)	(4)%	3,993	6 %	(7,066)	(177)%
Total operating expenses	41,370	60 %	48,414	74 %	(7,044)	(15)%
Income (loss) from operations	7,989	11 %	(1,620)	(2)%	9,609	N.M. %
Other expense	(404)	(1)%	(736)	(2)%	332	(45)%
Income (loss) before income taxes	7,585	10 %	(2,356)	(4)%	9,941	N.M. %
Income tax benefit	(14,714)	(21)%	(77)	— %	(14,637)	N.M. %
Net income (loss)	\$ 22,299	31 %	\$ (2,279)	(4)%	\$ 24,578	N.M. %

"N.M." Not Meaningful

(In thousands)	Nine Months Ended September 30,				Change	
	2023	% of revenue	2022	% of revenue	\$	%
Consolidated Statement of Operations Data:						
Revenue						
Sales revenue	\$ 171,459	87 %	\$ 147,980	86 %	\$ 23,479	16 %
Rental revenue	25,312	13 %	24,905	14 %	407	2 %
Total revenue	196,771	100 %	172,885	100 %	23,886	14 %
Cost of revenue						
Cost of sales revenue	48,523	24 %	41,366	24 %	7,157	17 %
Cost of rental revenue	9,122	5 %	7,640	4 %	1,482	19 %
Total cost of revenue	57,645	29 %	49,006	28 %	8,639	18 %
Gross profit						
Gross profit - sales revenue	122,936	63 %	106,614	62 %	16,322	15 %
Gross profit - rental revenue	16,190	8 %	17,265	10 %	(1,075)	(6)%
Gross profit	139,126	71 %	123,879	72 %	15,247	12 %
Operating expenses						
Sales and marketing	80,538	41 %	79,335	46 %	1,203	2 %
Research and development	6,030	3 %	4,949	3 %	1,081	22 %
Reimbursement, general and administrative	46,874	24 %	47,369	27 %	(495)	(1)%
Intangible asset amortization and earn-out	(557)	— %	12,834	8 %	(13,391)	(104)%
Total operating expenses	132,885	68 %	144,487	84 %	(11,602)	(8)%
Income (loss) from operations	6,241	3 %	(20,608)	(12)%	26,849	(130)%
Other expense	(2,235)	(1)%	(1,765)	(1)%	(470)	27 %
Income (loss) before income taxes	4,006	2 %	(22,373)	(13)%	26,379	(118)%
Income tax (benefit) expense	(16,307)	(8)%	114	— %	(16,421)	N.M. %
Net income (loss)	<u>\$ 20,313</u>	10 %	<u>\$ (22,487)</u>	(13)%	<u>\$ 42,800</u>	(190)%

Revenue

Revenue increased \$4.3 million, or 7%, to \$69.6 million in the three months ended September 30, 2023, compared to \$65.3 million in the three months ended September 30, 2022. The increase in total revenue was attributable to an increase of \$8.3 million, or 15%, in sales and rentals of the lymphedema product line, partially offset by a decrease of \$4.0 million, or 36%, in sales of the airway clearance product line in the quarter ended September 30, 2023, compared to the quarter ended September 30, 2022.

Revenue increased \$23.9 million, or 14%, to \$196.8 million in the nine months ended September 30, 2023, compared to \$172.9 million in the nine months ended September 30, 2022. The increase in total revenue was attributable to an increase of \$25.8 million, or 18%, in sales and rentals of the lymphedema product line, partially offset by a decrease of \$1.9 million, or 7%, in sales of the airway clearance product line in the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022.

The increase in the lymphedema product line revenue in the three and nine months ended September 30, 2023, was attributable to increasing productivity of our field sales team and enhancing our portfolio through the development and introduction of new products. The decrease in the airway clearance product line revenue in the three and nine months ended September 30, 2023, was attributable to one large DME provider experiencing slowed placements of our AffloVest system due to the expiration of the COVID-19 Public Health Emergency waiver and a return to “pre-public health emergency” eligibility requirements.

[Table of Contents](#)

The following table summarizes our revenue by product line for the three and nine months ended September 30, 2023 and 2022, both in dollars and percentage of total revenue:

(In thousands)	Three Months Ended September 30,		Change	
	2023	2022	\$	%
Revenue				
Lymphedema products	\$ 62,506	\$ 54,214	\$ 8,292	15%
Airway clearance products	7,080	11,048	(3,968)	(36)%
Total	<u>\$ 69,586</u>	<u>\$ 65,262</u>	<u>\$ 4,324</u>	7%
Percentage of total revenue				
Lymphedema products	90%	83%		
Airway clearance products	10%	17%		
Total	<u>100%</u>	<u>100%</u>		

"N.M." Not Meaningful

(In thousands)	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
Revenue				
Lymphedema products	\$ 172,257	\$ 146,502	\$ 25,755	18%
Airway clearance products	24,514	26,383	(1,869)	(7)%
Total	<u>\$ 196,771</u>	<u>\$ 172,885</u>	<u>\$ 23,886</u>	14%
Percentage of total revenues				
Lymphedema products	88%	85%		
Airway clearance products	12%	15%		
Total	<u>100%</u>	<u>100%</u>		

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 have an increasing 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.

Cost of Revenue and Gross Margin

Cost of revenue increased \$1.8 million, or 10%, to \$20.2 million in the three months ended September 30, 2023, compared to \$18.5 million in the three months ended September 30, 2022. Cost of revenue increased \$8.6 million, or 18%, to \$57.6 million in the nine months ended September 30, 2023, compared to \$49.0 million in the nine months ended September 30, 2022. The increase in cost of revenue was primarily attributable to the increase in sales and rentals of the lymphedema product line in both periods.

Gross margin was 70.9% and 71.7% in the three months ended September 30, 2023 and 2022, respectively, and 70.7% and 71.7% in the nine months ended September 30, 2023 and 2022, respectively.

Sales and Marketing Expenses

Sales and marketing expenses decreased \$0.6 million, or 2%, to \$26.0 million in the three months ended September 30, 2023, compared to \$26.6 million in the three months ended September 30, 2022. The

decrease was primarily attributable a \$0.6 million decrease in personnel-related compensation expenses and a \$0.4 million decrease in travel and entertainment expenses. These decreases were partially offset by a \$0.3 million increase in expenses for new product introduction and a \$0.1 million increase in subscription fee expenses.

Sales and marketing expenses increased \$1.2 million, or 2%, to \$80.5 million in the nine months ended September 30, 2023, compared to \$79.3 million in the nine months ended September 30, 2022. The increase was primarily attributable to a \$1.4 million increase in personnel-related compensation expenses, a \$0.3 million increase in subscription fee expenses and a \$0.2 million increase in expenses for new product introduction. These increases were partially offset by a \$0.5 million decrease in travel and entertainment expenses and a \$0.2 million decrease in expenses related to sales meetings and tradeshow.

Research and Development Expenses

Research and development (“R&D”) expenses increased \$0.4 million, or 24%, to \$2.0 million in the three months ended September 30, 2023, compared to \$1.6 million in the three months ended September 30, 2022. The increase was primarily attributable to a \$0.2 million increase in personnel-related compensation expenses and a \$0.2 million increase in clinical study related expenses.

R&D expenses increased \$1.1 million, or 22%, to \$6.0 million in the nine months ended September 30, 2023, compared to \$4.9 million in the nine months ended September 30, 2022. The increase was primarily attributable to a \$0.8 million increase in personnel-related compensation expenses and a \$0.3 million increase in clinical study related expenses.

Reimbursement, General and Administrative Expenses

Reimbursement, general and administrative expenses increased \$0.2 million, or 1%, to \$16.5 million in the three months ended September 30, 2023, compared to \$16.3 million in the three months ended September 30, 2022. This increase was primarily attributable to a \$0.2 million increase in personnel-related compensation expenses.

Reimbursement, general and administrative expenses decreased \$0.5 million, or 1%, to \$46.9 million in the nine months ended September 30, 2023, compared to \$47.4 million in the nine months ended September 30, 2022. This decrease was primarily attributable to a \$2.0 million decrease in occupancy costs, depreciation expense, and legal and professional fees, partially offset by a \$1.5 million increase in personnel-related compensation expenses.

Intangible Asset Amortization and Earn-out Expense

Intangible asset amortization and earn-out expense decreased \$7.1 million to a benefit of \$3.1 million in the three months ended September 30, 2023, compared to an expense of \$4.0 million in the three months ended September 30, 2022. The benefit primarily related to a decrease in the fair value of the earn-out expense of \$3.7 million for the three months ended September 30, 2023, due to the lower than expected airway clearance product revenue, compared to an increase in the fair value of the earn-out expense of \$3.4 million for the three months ended September 30, 2022.

Intangible asset amortization and earn-out expense decreased \$13.4 million to a benefit of \$0.6 million in the nine months ended September 30, 2023, compared to an expense of \$12.8 million in the nine months ended September 30, 2022. The benefit primarily related to a decrease in the fair value of the earn-out expense of \$2.5 million for the nine months ended September 30, 2023, due to the lower than expected airway clearance product revenue, compared to an increase in the fair value of the earn-out expense of \$10.9 million for the nine months ended September 30, 2022.

Other Expense, Net

Other expense, net was \$0.4 million and \$0.7 million for the three months ended September 30, 2023 and 2022, respectively. The decrease was primarily due to an increase in interest income. Other expense, net was \$2.2 million and \$1.8 million for the nine months ended September 30, 2023 and 2022, respectively. The increase was due to an increase in interest expense, partially offset by an increase in interest income.

Income Taxes

We recorded an income tax benefit of \$14.7 million and an income tax benefit of \$0.1 million for the three months ended September 30, 2023 and 2022, respectively. The primary driver of the change was attributable to the release of the valuation allowance related to the future realization of deferred tax assets. We recorded an income tax benefit of \$16.3 million and an income tax expense of \$0.1 million for the nine months ended September 30, 2023 and 2022, respectively. The primary driver of the change was attributable to the release of the valuation allowance related to the future realization of deferred tax assets.

Liquidity and Capital Resources

Cash Flows

At September 30, 2023, our principal sources of liquidity were cash and cash equivalents of \$66.0 million and net accounts receivable of \$58.5 million. This compares to cash and cash equivalents of \$23.4 million and net accounts receivable of \$69.5 million at September 30, 2022.

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

(In thousands)	Nine Months Ended September 30,	
	2023	2022
Net cash provided by (used in):		
Operating activities	\$ 17,503	\$ 1,354
Investing activities	(1,541)	(1,844)
Financing activities	28,145	(4,313)
Net increase (decrease) in cash and cash equivalents	\$ 44,107	\$ (4,803)

Operating Activities

Net cash provided by operating activities during the nine months ended September 30, 2023 was \$17.5 million, resulting from net income of \$20.3 million and a net increase in operating assets and liabilities of \$9.9 million, which were partially offset by non-cash net income adjustments of \$12.7 million. Cash provided relating to the change in operating assets and liabilities primarily consisted of a decrease in accounts receivable of \$19.3 million and a decrease in net investment in leases of \$2.5 million, partially offset by a decrease in accrued expenses of \$5.5 million, a decrease in accounts payable of \$3.6 million, a decrease in accrued payroll and related taxes of \$2.3 million, and an increase in prepaid expenses and inventories of \$0.7 million. The negative non-cash net loss adjustments consisted primarily of \$20.7 million of deferred income taxes and a \$2.5 million change in the fair value of earn-out liability, offset by \$5.6 million of stock-based compensation expense and \$4.9 million of depreciation and amortization expense.

Net cash provided by operating activities during the nine months ended September 30, 2022 was \$1.4 million, primarily resulting from non-cash net (loss) income adjustments of \$23.3 million and a net increase in operating assets and liabilities of \$0.6 million, partially offset by a net loss of \$22.5 million. The non-cash net (loss) income adjustments consisted primarily of \$10.9 million related to a change in fair value of earn-out liability, \$7.7 million of stock-based compensation expense and \$4.7 million of depreciation and amortization expense. The uses of cash related to changes in operating assets primarily consisted of increases in net investment in leases of \$2.6 million, accounts receivable of \$2.3 million, inventories of \$3.8 million, and prepaid expenses and other assets of \$0.3 million. The changes in operating liabilities consisted of increases in accrued

expenses and other liabilities of \$6.8 million, accounts payable of \$6.1 million, and accrued payroll and related taxes of \$1.4 million.

Investing Activities

Net cash used in investing activities during the nine months ended September 30, 2023, was \$1.5 million, consisting of purchases of property and equipment, and patent costs.

Net cash used in investing activities during the nine months ended September 30, 2022, was \$1.8 million, consisting of purchases of property and equipment, and patent costs.

Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2023, was \$28.1 million, primarily consisting of net proceeds from the offering of our common stock of \$34.6 million and \$1.0 million in proceeds from the issuance of common stock under the ESPP, partially offset by a payment of \$5.0 million on the AffloVest earn-out and a \$2.3 million payment made on our term loan.

Net cash used in financing activities during the nine months ended September 30, 2022, was \$4.3 million, primarily consisting of payments of \$5.3 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.

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 amended 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, added 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 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 acquisition of the AffloVest business, 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. The Second Amendment modified the maximum leverage ratio, the minimum fixed charge coverage ratio and the minimum consolidated EBITDA covenants under the Credit Agreement, and added a minimum liquidity covenant, through the quarter ended June 30, 2023. The Second Amendment also increased the applicable margin for LIBOR rate loans under the Credit Agreement during the period commencing on the date of the Second Amendment and ending on the last day of the fiscal quarter ending June 30, 2023. Pursuant to the Second Amendment, we made a mandatory principal prepayment of the term loan of \$3.0 million on February 22, 2022.

On June 21, 2023, we entered into a Third Amendment Agreement (the "Third Amendment") that replaced the interest rate benchmark under the Credit Agreement from LIBOR to the term Secured Overnight Financing Rate ("SOFR"). All tenors of term SOFR are subject to a credit spread adjustment of 0.10% ("Adjusted Term SOFR").

On August 1, 2023, we entered into a Fourth Amendment Agreement (the “Fourth Amendment”), which further amends the Credit Agreement. The Fourth Amendment, among other things, decreased the commitment fees payable under the revolving credit facility and eliminated the temporary increase in the applicable margin for Adjusted Term SOFR loans. The Fourth Amendment also eliminated the liquidity financial covenant and modified the remaining financial covenants to reflect the termination of the temporary covenant relief period that was in place until June 30, 2023 pursuant to the Second Amendment. In addition, the Fourth Amendment provided for an additional term loan in the amount of \$8.25 million, which we used for a paydown of the revolving credit facility. The Fourth Amendment also extended the maturity date of the term loans and revolving credit facility under the Credit Agreement from September 8, 2024 to August 1, 2026.

As of September 30, 2023, we had outstanding borrowings of \$46.8 million under the Credit Agreement, comprised of \$30.0 million under the term loan and \$16.8 million under the revolving credit facility. The principal of the term loan is required to be repaid in quarterly installments of \$750,000.

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, 2022. There have been no material changes since December 31, 2022.

Adequacy of Resources

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

- the impacts of inflation, rising interest rates or a recession on our business;
- sales and marketing resources needed to further penetrate our market;
- expansion of our operations;
- 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, 2022.

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, 2022. There have been no material changes since December 31, 2022.

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 September 30, 2023. 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 September 30, 2023, 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 September 30, 2023, 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, 2022, 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.

Trading Arrangements

During the quarter ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

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 December 19, 2022	10-K	02/21/2023	3.2	
10.1	Fourth Amendment Agreement, dated as of August 1, 2023, among Tactile Systems Technology, Inc., the lenders signatory thereto and Wells Fargo Bank, National Association, as administrative agent	10-Q	08/07/2023	10.2	
10.2	Offer Letter between Sherri Ferstler and Tactile Systems Technology, Inc., dated July 18, 2023	10-Q	08/07/2023	10.3	
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	Inline XBRL for the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023: (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; and for the information set forth in Part II, Item 5.				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: November 6, 2023

By: /s/ Elaine M. Birkemeyer
Elaine M. Birkemeyer
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: November 6, 2023

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

I, Elaine M. Birkemeyer, 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/ Elaine M. Birkemeyer

Elaine M. Birkemeyer
Chief Financial Officer

Date: November 6, 2023

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

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the "Company") for the period ended September 30, 2023, 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: November 6, 2023

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

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the "Company") for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Elaine M. Birkemeyer, 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/ Elaine M. Birkemeyer

Elaine M. Birkemeyer
Chief Financial Officer

Date: November 6, 2023
