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

FORM 10-Q

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

For the quarterly period ended: June 30, 2024

or

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

For the transition period from to

Commission File Number: **001-37799**

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

23,966,748 shares of common stock, par value \$0.001 per share, were outstanding as of August 1, 2024.

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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:

- our ability to obtain reimbursement from third-party payers for our products;
- the impact of inflation, rising interest rates or recession;
- the adequacy of our liquidity to pursue our business objectives;
- 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 transition matters related to our recent Chief Executive Officer change;
- 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 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, 2023, and in subsequent Quarterly Reports 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)	June 30, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 73,618	\$ 61,033
Accounts receivable	41,935	43,173
Net investment in leases	13,551	14,195
Inventories	18,846	22,527
Prepaid expenses and other current assets	3,909	4,366
Total current assets	151,859	145,294
Non-current assets		
Property and equipment, net	5,691	6,195
Right of use operating lease assets	17,828	19,128
Intangible assets, net	44,883	46,724
Goodwill	31,063	31,063
Accounts receivable, non-current	4,511	10,936
Deferred income taxes	19,408	19,378
Other non-current assets	3,541	2,720
Total non-current assets	126,925	136,144
Total assets	\$ 278,784	\$ 281,438
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 5,094	\$ 6,659
Note payable	2,956	2,956
Accrued payroll and related taxes	12,090	16,789
Accrued expenses	6,702	5,904
Income taxes payable	496	1,467
Operating lease liabilities	2,799	2,807
Other current liabilities	4,075	4,475
Total current liabilities	34,212	41,057
Non-current liabilities		
Note payable, non-current	24,698	26,176
Accrued warranty reserve, non-current	1,561	1,681
Income taxes payable, non-current	495	446
Operating lease liabilities, non-current	17,142	18,436
Total non-current liabilities	43,896	46,739
Total liabilities	78,108	87,796
Commitments and Contingencies (see Note 9)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued and outstanding as of June 30, 2024 and December 31, 2023	—	—
Common stock, \$0.001 par value, 300,000,000 shares authorized; 23,966,748 shares issued and outstanding as of June 30, 2024; 23,600,584 shares issued and outstanding as of December 31, 2023	24	24
Additional paid-in capital	179,669	174,724
Retained earnings	20,983	18,894
Total stockholders' equity	200,676	193,642
Total liabilities and stockholders' equity	\$ 278,784	\$ 281,438

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

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

(In thousands, except share and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue				
Sales revenue	\$ 64,267	\$ 59,802	\$ 117,574	\$ 112,593
Rental revenue	8,951	8,537	16,732	14,592
Total revenue	73,218	68,339	134,306	127,185
Cost of revenue				
Cost of sales revenue	16,263	16,865	31,207	31,507
Cost of rental revenue	2,852	3,175	5,567	5,911
Total cost of revenue	19,115	20,040	36,774	37,418
Gross profit				
Gross profit - sales revenue	48,004	42,937	86,367	81,086
Gross profit - rental revenue	6,099	5,362	11,165	8,681
Gross profit	54,103	48,299	97,532	89,767
Operating expenses				
Sales and marketing	28,608	28,206	55,965	54,508
Research and development	2,234	1,833	4,377	4,066
Reimbursement, general and administrative	16,779	14,991	33,040	30,425
Intangible asset amortization and earn-out	633	1,211	1,265	2,516
Total operating expenses	48,254	46,241	94,647	91,515
Income (loss) from operations	5,849	2,058	2,885	(1,748)
Other income (expense)	225	(838)	380	(1,831)
Income (loss) before income taxes	6,074	1,220	3,265	(3,579)
Income tax expense (benefit)	1,776	1,320	1,176	(1,593)
Net income (loss)	\$ 4,298	\$ (100)	\$ 2,089	\$ (1,986)
Net income (loss) per common share				
Basic	\$ 0.18	\$ 0.00	\$ 0.09	\$ (0.09)
Diluted	\$ 0.18	\$ 0.00	\$ 0.09	\$ (0.09)
Weighted-average common shares used to compute net income (loss) per common share				
Basic	23,873,379	23,352,530	23,769,604	22,323,856
Diluted	24,099,047	23,352,530	24,073,986	22,323,856

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, March 31, 2024	23,761,897	\$ 24	\$ 176,764	\$ 16,685	\$ 193,473
Stock-based compensation	—	—	1,860	—	1,860
Exercise of common stock options and vesting of performance and restricted stock units	96,944	—	1	—	1
Common shares issued for employee stock purchase plan	107,907	—	1,044	—	1,044
Net income for the period	—	—	—	4,298	4,298
Balances, June 30, 2024	<u>23,966,748</u>	<u>\$ 24</u>	<u>\$ 179,669</u>	<u>\$ 20,983</u>	<u>\$ 200,676</u>
Balances, December 31, 2023	23,600,584	\$ 24	\$ 174,724	\$ 18,894	\$ 193,642
Stock-based compensation	—	—	3,899	—	3,899
Exercise of common stock options and vesting of performance and restricted stock units	258,257	—	2	—	2
Common shares issued for employee stock purchase plan	107,907	—	1,044	—	1,044
Net income for the period	—	—	—	2,089	2,089
Balances, June 30, 2024	<u>23,966,748</u>	<u>\$ 24</u>	<u>\$ 179,669</u>	<u>\$ 20,983</u>	<u>\$ 200,676</u>
Balances, March 31, 2023	23,235,065	\$ 23	\$ 167,646	\$ (11,507)	\$ 156,162
Stock-based compensation	—	—	1,808	—	1,808
Exercise of common stock options and vesting of performance and restricted stock units	102,421	—	11	—	11
Common shares issued for employee stock purchase plan	120,816	—	882	—	882
Net loss for the period	—	—	—	(100)	(100)
Balances, June 30, 2023	<u>23,458,302</u>	<u>\$ 23</u>	<u>\$ 170,347</u>	<u>\$ (11,607)</u>	<u>\$ 158,763</u>
Balances, December 31, 2022	20,252,677	\$ 20	\$ 131,001	\$ (9,621)	\$ 121,400
Stock-based compensation	—	—	3,831	—	3,831
Exercise of common stock options and vesting of performance and restricted stock units	209,809	—	11	—	11
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 loss for the period	—	—	—	(1,986)	(1,986)
Balances, June 30, 2023	<u>23,458,302</u>	<u>\$ 23</u>	<u>\$ 170,347</u>	<u>\$ (11,607)</u>	<u>\$ 158,763</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)	Six Months Ended June 30,	
	2024	2023
Cash flows from operating activities		
Net income (loss)	\$ 2,089	\$ (1,986)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,345	3,269
Deferred income taxes	(30)	—
Stock-based compensation expense	3,899	3,831
Loss on disposal of property and equipment and intangibles	54	3
Change in fair value of earn-out liability	—	1,230
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	1,238	8,273
Net investment in leases	644	2,911
Inventories	3,681	2,809
Income taxes	(922)	(3,967)
Prepaid expenses and other assets	(364)	(697)
Right of use operating lease assets	(2)	50
Accounts receivable, non-current	6,425	7,631
Accounts payable	(1,592)	(696)
Accrued payroll and related taxes	(4,699)	(3,300)
Accrued expenses and other liabilities	300	(5,954)
Net cash provided by operating activities	<u>14,066</u>	<u>13,407</u>
Cash flows from investing activities		
Purchases of property and equipment	(982)	(1,043)
Proceeds from sale of property and equipment	12	—
Intangible assets expenditures	(57)	(99)
Net cash used in investing activities	<u>(1,027)</u>	<u>(1,142)</u>
Cash flows from financing activities		
Payments on earn-out	—	(5,000)
Payments on note payable	(1,500)	(1,500)
Proceeds from exercise of common stock options	2	11
Proceeds from the issuance of common stock from the employee stock purchase plan	1,044	882
Proceeds from issuance of common stock at market	—	34,625
Net cash (used in) provided by financing activities	<u>(454)</u>	<u>29,018</u>
Net increase in cash and cash equivalents	12,585	41,283
Cash and cash equivalents – beginning of period	61,033	21,929
Cash and cash equivalents – end of period	<u>\$ 73,618</u>	<u>\$ 63,212</u>
Supplemental cash flow disclosure		
Cash paid for interest	\$ 1,099	\$ 1,925
Cash paid for taxes	\$ 2,177	\$ 2,415
Capital expenditures incurred but not yet paid	\$ 27	\$ 8

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

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

Note 1. Nature of Business and Operations

Tactile Systems Technology, Inc. (“we,” “us,” “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”). 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 because patients desire to exhaust their flexible spending accounts at year end. This seasonality applies only to purchases and rentals of our products by patients covered by commercial insurance and is not relevant to Medicare, Medicaid or the Veterans Administration, as those payers either do not have plans that have declining deductibles over the course of the plan year and/or do not have plans that include patient deductibles for purchases or rentals of our products.

Note 2. Basis of Presentation

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

The results for the six months ended June 30, 2024, are not necessarily indicative of results to be expected for the year ending December 31, 2024, 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, 2023.

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.

Use of Estimates

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

Note 3. Summary of Significant Accounting Policies

Significant Accounting Policies

There were no material changes in our significant accounting policies during the six months ended June 30, 2024. 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, 2023, for information regarding our significant accounting policies.

Accounting Pronouncement Not Yet Adopted

In November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures” which requires entities to enhance disclosures around segment reporting. The guidance is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures” which requires entities to enhance disclosures around income taxes. The guidance is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures.

Note 4. Inventories

Inventories consisted of the following:

(In thousands)	At June 30, 2024	At December 31, 2023
Finished goods	\$ 6,365	\$ 7,979
Component parts and work-in-process	12,481	14,548
Total inventories	<u>\$ 18,846</u>	<u>\$ 22,527</u>

Note 5. Goodwill and Intangible Assets

Goodwill

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

Intangible Assets

Our patents and other intangible assets are summarized as follows:

(In thousands)	Weighted-Average Amortization Period	At June 30, 2024		
		Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	\$ 1,060	\$ 290	\$ 770
Defensive intangible assets	1 year	1,125	993	132
Customer accounts	—	125	125	—
Customer relationships	10 years	31,000	6,704	24,296
Developed technology	8 years	13,000	3,322	9,678
Subtotal		46,310	11,434	34,876
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		507	—	507
Total intangible assets		<u>\$ 56,317</u>	<u>\$ 11,434</u>	<u>\$ 44,883</u>

(In thousands)	Weighted-Average Amortization Period	At December 31, 2023		
		Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	\$ 1,018	\$ 248	\$ 770
Defensive intangible assets	1 year	1,125	920	205
Customer accounts	—	125	125	—
Customer relationships	11 years	31,000	5,511	25,489
Developed technology	9 years	13,000	2,731	10,269
Subtotal		46,268	9,535	36,733
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		491	—	491
Total intangible assets		<u>\$ 56,259</u>	<u>\$ 9,535</u>	<u>\$ 46,724</u>

Amortization expense was \$1.0 million for each of the three months ended June 30, 2024 and 2023, and \$1.9 million for each of the six months ended June 30, 2024 and 2023, of which \$0.3 million in each of the three months ended June 30, 2024 and 2023, and \$0.6 million in each of the six months ended June 30, 2024 and 2023, were recorded in cost of sales revenue. Future amortization expenses are expected as follows:

(In thousands)	
2024 (July 1 - December 31)	\$ 1,899
2025	3,708
2026	3,643
2027	3,635
2028	3,632
Thereafter	18,359
Total	<u>\$ 34,876</u>

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 6. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	At June 30, 2024		At December 31, 2023	
Warranty	\$	2,131	\$	2,357
Legal and consulting		1,161		611
In-transit inventory		1,102		401
Travel		933		1,038
Clinical studies		339		363
Sales and use tax		108		183
Other		928		951
Total	\$	<u>6,702</u>	\$	<u>5,904</u>

Note 7. Warranty Reserves

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

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Beginning balance	\$ 3,836	\$ 4,000	\$ 4,038	\$ 4,212
Warranty provision	902	1,026	1,742	1,900
Processed warranty claims	(1,046)	(1,198)	(2,088)	(2,284)
Ending balance	<u>\$ 3,692</u>	<u>\$ 3,828</u>	<u>\$ 3,692</u>	<u>\$ 3,828</u>
Accrued warranty reserve, current	\$ 2,131	\$ 1,871	\$ 2,131	\$ 1,871
Accrued warranty reserve, non-current	1,561	1,957	1,561	1,957
Total accrued warranty reserve	<u>\$ 3,692</u>	<u>\$ 3,828</u>	<u>\$ 3,692</u>	<u>\$ 3,828</u>

Note 8. 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%.

On August 1, 2023, we entered into a Fourth Amendment Agreement (the “Fourth Amendment”), which further amended 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.

On December 21, 2023, we made a payment of \$16.8 million to repay in full the outstanding balance on the revolving credit facility.

As of June 30, 2024, we had outstanding borrowings of \$27.8 million under the Credit Agreement, comprised entirely of the term loan. At June 30, 2024, all outstanding borrowings were subject to interest at a rate calculated at Adjusted Term SOFR plus an applicable margin, for an interest rate of 7.18%. 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 three years as of June 30, 2024, were as follows:

<i>(In thousands)</i>	Amount
2024 (July 1 - December 31)	\$ 1,500
2025	3,000
2026	23,250
Total	27,750
Less: Deferred financing fees	(96)
Net Note Payable	27,654
Less: Current portion of note payable	(2,956)
Non-current portion of note payable	\$ 24,698

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 June 30, 2024, the Credit Agreement contained a number of restrictions and covenants, including that we maintain compliance with a maximum consolidated total leverage ratio, a minimum fixed charge coverage ratio and a minimum consolidated EBITDA covenant. As of June 30, 2024, we were in compliance with all covenants under the Credit Agreement.

Note 9. 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 recognized on a straight-line basis over the term of the lease. The remaining lease terms vary from approximately one to seven years as of June 30, 2024.

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. 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. The three portions were recognized as an operating lease and included in the ROU operating lease assets and operating lease liabilities on the Condensed Consolidated Balance Sheets.

Computer and Office Equipment

We also have operating lease agreements for certain computer and office equipment. The remaining lease terms as of June 30, 2024, ranged from less than one year to approximately four years with fixed monthly payments that are included in the ROU operating lease assets and operating lease liabilities. The leases provide an option to purchase the related equipment at fair market value at the end of the lease. The leases will automatically renew as a month-to-month rental at the end of the lease if the equipment is not purchased or returned.

Lease Position, Undiscounted Cash Flow and Supplemental Information

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

(In thousands)	At June 30, 2024	At December 31, 2023
Right of use operating lease assets	\$ 17,828	\$ 19,128
Operating lease liabilities:		
Current	\$ 2,799	\$ 2,807
Non-current	17,142	18,436
Total	\$ 19,941	\$ 21,243
Operating leases:		
Weighted average remaining lease term	6.3 years	6.7 years
Weighted average discount rate	4.3%	4.3%
Six Months Ended June 30,		
	2024	2023
Supplemental cash flow information for our operating leases:		
Cash paid for operating lease liabilities	\$ 1,743	\$ 1,710
Non-cash right of use assets obtained in exchange for new operating lease obligations	\$ 3	\$ —

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)	Six Months Ended June 30,	
	2024	2023
2024 (July 1 - December 31)	\$	1,791
2025		3,645
2026		3,716
2027		3,210
2028		3,185
Thereafter		6,943
Total minimum lease payments		22,490
Less: Amount of lease payments representing interest		(2,549)
Present value of future minimum lease payments		19,941
Less: Current obligations under operating lease liabilities		(2,799)
Non-current obligations under operating lease liabilities	\$	17,142

Operating lease costs were \$0.9 million for each of the three months ended June 30, 2024 and 2023. Operating lease costs were \$1.8 million for each of the six months ended June 30, 2024 and 2023.

Major Vendors

We had purchases from one vendor that accounted for 17% of our total purchases for the three months ended June 30, 2024, and purchases from one vendor that accounted for 20% of our total purchases for the six months ended June 30, 2024. We had purchases from two vendors that accounted for 30% of our total purchases for the three months ended June 30, 2023, and purchases from one vendor that accounted for 24% of our total purchases for the six months ended June 30, 2023.

Purchase Commitments

We issued purchase orders prior to June 30, 2024, totaling \$28.8 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 and \$0.3 million for the three months ended June 30, 2024 and 2023, respectively, and \$1.1 million and \$0.7 million for the six months ended June 30, 2024 and 2023, respectively.

Legal Proceedings

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

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 (the "Weaver Lawsuit"). The Weaver Lawsuit generally arises out of the same subject matter as a previously settled securities class action captioned Brian Mart v. Tactile Sys. Tech., Inc., et al., File No. 0:20-cv-02074-NEB-BRT (D. Minn.) (the "Mart Lawsuit"), which alleged, inter alia, that we and eight of our former officers and directors made materially false or misleading statements about our business, operational and compliance policies. The Weaver Lawsuit 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 Weaver 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. On July 31, 2023, the plaintiff filed a Joint Notice of Preliminary Settlement indicating that the parties had 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 continued to finalize settlement.

On June 6, 2024, we entered into a Stipulation of Settlement in the Weaver Lawsuit. On June 7, 2024, the plaintiff filed an unopposed motion for preliminary approval of the settlement. On June 27, 2024, the Court entered an order granting the motion for preliminary approval of the settlement. The Court has scheduled a settlement hearing for August 28, 2024 to consider whether to grant final approval to the settlement. Pursuant to the settlement, we will adopt, implement and maintain certain corporate governance reforms and have agreed to pay approximately \$0.5 million in fees and expenses related to this lawsuit. The settlement does not constitute an admission of liability or wrongdoing by us or any of our current or former directors or officers.

Note 10. Stockholders' Equity

Stock-Based Compensation

Our 2016 Equity Incentive Plan (the "2016 Plan") authorizes us to grant stock options, stock appreciation rights, restricted stock, stock units and other stock-based awards to employees, non-employee directors and certain consultants and advisors. There were up to 4,800,000 shares of our common stock initially reserved for issuance pursuant to the 2016 Plan. The 2016 Plan provides that the number of shares reserved and available for issuance under the 2016 Plan will automatically increase annually on January 1 of each calendar year, commencing in 2017 and ending on and including January 1, 2026, by an amount equal to the lesser of: (a) 5% of the number of common shares of stock outstanding as of December 31 of the immediately preceding calendar year, or (b) 2,500,000 shares; provided, however, that our Board of Directors may determine that any annual increase be a lesser number. In addition, all awards granted under our 2007 Omnibus

Stock Plan and our 2003 Stock Option Plan that were outstanding when the 2016 Plan became effective and that are forfeited, expired, cancelled, settled for cash or otherwise not issued, will become available for issuance under the 2016 Plan. Pursuant to the automatic increase feature of the 2016 Plan, 1,180,019 shares were added as available for issuance thereunder on January 1, 2024. Our Board of Directors exercised its prerogative to forego the automatic increase on January 1, 2023. As of June 30, 2024, 6,615,454 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 \$1.9 million and \$1.8 million for the three months ended June 30, 2024 and 2023, respectively and \$3.9 million and \$3.8 million for the six months ended June 30, 2024 and 2023, respectively. This expense was allocated as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Cost of revenue	\$ 103	\$ 121	\$ 186	\$ 224
Sales and marketing expenses	606	810	1,344	1,562
Research and development expenses	48	44	81	93
Reimbursement, general and administrative expenses	1,103	833	2,288	1,952
Total stock-based compensation expense	<u>\$ 1,860</u>	<u>\$ 1,808</u>	<u>\$ 3,899</u>	<u>\$ 3,831</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 \$0.1 million and \$0.2 million for the three months ended June 30, 2024 and 2023, respectively and \$0.2 million and \$0.5 million for the six months ended June 30, 2024 and 2023, respectively. At June 30, 2024, there was approximately \$0.1 million of total unrecognized pre-tax stock option expense under our equity compensation plans, which is expected to be recognized on a straight-line basis over a weighted-average period of 1.0 years.

Our stock option activity for the six months ended June 30, 2024, 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, 2023	429,960	\$ 40.74	3.8 years	\$ 223
Exercised	(1,153)	\$ 1.35		\$ 14
Cancelled/Expired	(12,995)	\$ 41.17		
Balance at June 30, 2024	<u>415,812</u>	\$ 40.83	3.3 years	\$ 125
Options exercisable at June 30, 2024	392,239	\$ 42.19	3.2 years	\$ 65

(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 435,559 as of June 30, 2023, had a weighted-average exercise price of \$44.67 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 \$1.5 million and \$1.3 million for the three months ended June 30, 2024 and 2023, respectively, and \$2.9 million and \$2.6 million for the six months ended June 30, 2024 and 2023, respectively. At June 30, 2024, there was approximately \$8.3 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 1.9 years.

Our time-based restricted stock unit activity for the six months ended June 30, 2024, was as follows:

<i>(In thousands except unit and per unit data)</i>	Units Outstanding	Weighted- Average Grant Date Fair Value Per Unit	Aggregate Intrinsic Value ⁽¹⁾
Balance at December 31, 2023	589,142	\$ 16.35	\$ 8,425
Granted	464,145	\$ 13.87	
Vested	(224,149)	\$ 18.02	
Cancelled	(107,363)	\$ 14.62	
Balance at June 30, 2024	<u>721,775</u>	\$ 14.50	\$ 8,618

(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 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 based on revenue change and adjusted EBITDA change are achieved in 2025 (ranging from 25% to 175% of target). The PSUs granted in 2024 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 2024 (ranging from 25% to 175% of target), one-third will be earned if and to the extent performance goals based on revenue change and adjusted EBITDA change are achieved in 2025 (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 2026. All earned and vested PSUs will be settled in shares of common stock.

Stock-based compensation expense recognized for PSUs was \$0.2 million and \$0.1 million for the three months ended June 30, 2024 and 2023, respectively, and \$0.6 million and \$0.3 million for the six months ended June 30, 2024 and 2023, respectively. At June 30, 2024, there was approximately \$1.5 million of total unrecognized pre-tax compensation expense related to outstanding PSUs that is expected to be recognized over a weighted average period of 2.2 years.

Our PSU activity for the six months ended June 30, 2024, 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, 2023	198,232	\$ 18.93	\$ 2,785
Granted	160,659	\$ 13.88	
Vested	(44,162)	\$ 27.31	
Cancelled	(104,913)	\$ 14.14	
Balance at June 30, 2024	<u>209,816</u>	\$ 15.70	\$ 2,505

(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. Pursuant to the automatic increase feature of the ESPP, 236,003 shares were added as available for issuance thereunder on January 1, 2024. Our Board of Directors exercised its prerogative to forego the automatic increase on January 1, 2023. As of June 30, 2024, 1,497,964 shares were available for future issuance under the ESPP. We recognized stock-based compensation expense associated with the ESPP of \$0.1 million for each of the three months ended June 30, 2024 and 2023, and \$0.2 million and \$0.3 million for the six months ended June 30, 2024 and 2023, respectively.

Note 11. 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:

<i>(In thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue				
Lymphedema products	\$ 64,683	\$ 59,999	\$ 116,996	\$ 109,751
Airway clearance products	8,535	8,340	17,310	17,434
Total	<u>\$ 73,218</u>	<u>\$ 68,339</u>	<u>\$ 134,306</u>	<u>\$ 127,185</u>
Percentage of total revenue				
Lymphedema products	88%	88%	87%	86%
Airway clearance products	12%	12%	13%	14%
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 six months ended June 30, 2024 and 2023, are summarized in the following table:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Private insurers and other payers	\$ 44,066	\$ 36,499	\$ 75,343	\$ 61,924
Veterans Administration	8,071	7,121	14,897	12,944
Medicare	12,546	16,379	26,756	34,883
Durable medical equipment distributors	8,535	8,340	17,310	17,434
Total	\$ 73,218	\$ 68,339	\$ 134,306	\$ 127,185

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 Sheets. 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 months ended June 30, 2024 and 2023, was primarily from private insurers. Sales-type lease revenue and the associated cost of revenue for the three and six months ended June 30, 2024 and 2023, was:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Sales-type lease revenue	\$ 8,951	\$ 8,537	\$ 16,732	\$ 14,592
Cost of sales-type lease revenue	2,852	3,175	5,567	5,911
Gross profit	\$ 6,099	\$ 5,362	\$ 11,165	\$ 8,681

Note 12. 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 includes current federal and state income tax expense, as well as deferred federal and state income tax expense.

The effective tax rate for the three months ended June 30, 2024, was an expense of 29.2%, compared to an expense of 108.3% for the three months ended June 30, 2023. The primary driver of the change in our effective tax rate was attributable to the fact that we did not have a full valuation allowance on our deferred tax assets for the current year period, while the prior year period reported a full valuation allowance. We recorded

income tax expense of \$1.8 million and \$1.3 million for the three months ended June 30, 2024 and 2023, respectively.

The effective tax rate for the six months ended June 30, 2024, was an expense of 36.0%, compared to a benefit of 44.5% for the six months ended June 30, 2023. The primary driver of the change in our effective tax rate was attributable to the fact that we did not have a full valuation allowance on our deferred tax assets for the current year period, while the prior year period reported a full valuation allowance. Additionally, in the prior year period we had year-to-date losses that we expected to realize, which drove a tax benefit. We recorded an income tax expense of \$1.2 million and an income tax benefit of \$1.6 million for the six months ended June 30, 2024 and 2023, respectively.

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

The Company currently is not under examination in any jurisdictions.

Note 13. Net Income (Loss) Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(In thousands, except share and per share data)				
Net income (loss)	\$ 4,298	\$ (100)	\$ 2,089	\$ (1,986)
Weighted-average shares outstanding	23,873,379	23,352,530	23,769,604	22,323,856
Weighted-average shares used to compute diluted net income (loss) per share	24,099,047	23,352,530	24,073,986	22,323,856
Net income (loss) per share - Basic	\$ 0.18	\$ 0.00	\$ 0.09	\$ (0.09)
Net income (loss) per share - Diluted	\$ 0.18	\$ 0.00	\$ 0.09	\$ (0.09)

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 June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Restricted stock units	449,056	674,178	493,370	674,178
Common stock options	381,187	526,047	387,298	526,047
Performance stock units	—	216,291	166,457	216,291
Employee stock purchase plan	—	59,509	—	71,253
Total	830,243	1,476,025	1,047,125	1,487,769

Note 14. 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 June 30, 2024, our obligations under the AffloVest Acquisition earn-out arrangements had been paid in full. 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, which was September 30, 2023. Changes in fair value were included in intangible asset amortization and earn-out expenses in our Condensed Consolidated Statements of Operations.

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

(In thousands)

Earn-out liability at December 31, 2022	\$	13,050
Payment on earn-out		(5,000)
Fair value adjustments		1,230
Earn-out liability at June 30, 2023	\$	<u>9,280</u>

On May 25, 2023, the Company paid \$5.0 million, plus an imputed interest payment of \$250,000, relating to the initial earn-out. Subsequent to September 30, 2023, it was determined that the calculated amount of the second earn-out payment was \$5.6 million, which was paid by the Company on November 28, 2023.

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 87% and 86% of our revenue in the six months ended June 30, 2024 and 2023, respectively.

On September 8, 2021, we acquired the assets of the AffloVest airway clearance product line. AffloVest is a portable, wearable vest that provides airway clearance to treat patients with chronic respiratory conditions such as bronchiectasis or conditions resulting from neuromuscular disorders. For the six months ended June 30, 2024 and 2023, sales of AffloVest represented 13% and 14% 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 June 30, 2024, we employed 264 field sales representatives for our lymphedema products and a team of 19 supporting our airway clearance products. This compares to 245 field sales representatives (excluding 4 key account managers) for our lymphedema products and a team of 12 specialists supporting our airway clearance products as of June 30, 2023.

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. We also manufacture and ship the AffloVest device from our Minnesota-based facility.

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

For the three months ended June 30, 2024, we generated revenue of \$73.2 million and had net income of \$4.3 million, compared to revenue of \$68.3 million and a net loss of \$0.1 million for the three months ended June 30, 2023. For the six months ended June 30, 2024, we generated revenue of \$134.3 million and had net income of \$2.1 million, compared to revenue of \$127.2 million and a net loss of \$2.0 million for the six months ended June 30, 2023. 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

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.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2024 and 2023

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

(In thousands)	Three Months Ended June 30,				Change	
	2024		2023		\$	%
Condensed Consolidated Statement of Operations Data:		% of revenue		% of revenue		
Revenue						
Sales revenue	\$ 64,267	88 %	\$ 59,802	88 %	\$ 4,465	7 %
Rental revenue	8,951	12 %	8,537	12 %	414	5 %
Total revenue	73,218	100 %	68,339	100 %	4,879	7 %
Cost of revenue						
Cost of sales revenue	16,263	22 %	16,865	25 %	(602)	(4)%
Cost of rental revenue	2,852	4 %	3,175	4 %	(323)	(10)%
Total cost of revenue	19,115	26 %	20,040	29 %	(925)	(5)%
Gross profit						
Gross profit - sales revenue	48,004	66 %	42,937	63 %	5,067	12 %
Gross profit - rental revenue	6,099	8 %	5,362	8 %	737	14 %
Gross profit	54,103	74 %	48,299	71 %	5,804	12 %
Operating expenses						
Sales and marketing	28,608	39 %	28,206	41 %	402	1 %
Research and development	2,234	3 %	1,833	3 %	401	22 %
Reimbursement, general and administrative	16,779	23 %	14,991	22 %	1,788	12 %
Intangible asset amortization and earn- out	633	1 %	1,211	2 %	(578)	(48)%
Total operating expenses	48,254	66 %	46,241	68 %	2,013	4 %
Income from operations	5,849	8 %	2,058	3 %	3,791	184 %
Other income (expense)	225	— %	(838)	(1)%	1,063	(127)%
Income before income taxes	6,074	8 %	1,220	2 %	4,854	N.M. %
Income tax expense	1,776	2 %	1,320	2 %	456	35 %
Net income (loss)	<u>\$ 4,298</u>	6 %	<u>\$ (100)</u>	— %	<u>\$ 4,398</u>	N.M. %

(In thousands)	Six Months Ended June 30,				Change	
	2024		2023		\$	%
Condensed Consolidated Statement of Operations Data:		% of		% of		
		revenue		revenue		
Revenue						
Sales revenue	\$ 117,574	88 %	\$ 112,593	89 %	\$ 4,981	4 %
Rental revenue	16,732	12 %	14,592	11 %	2,140	15 %
Total revenue	134,306	100 %	127,185	100 %	7,121	6 %
Cost of revenue						
Cost of sales revenue	31,207	23 %	31,507	25 %	(300)	(1)%
Cost of rental revenue	5,567	4 %	5,911	4 %	(344)	(6)%
Total cost of revenue	36,774	27 %	37,418	29 %	(644)	(2)%
Gross profit						
Gross profit - sales revenue	86,367	65 %	81,086	64 %	5,281	7 %
Gross profit - rental revenue	11,165	8 %	8,681	7 %	2,484	29 %
Gross profit	97,532	73 %	89,767	71 %	7,765	9 %
Operating expenses						
Sales and marketing	55,965	42 %	54,508	43 %	1,457	3 %
Research and development	4,377	3 %	4,066	3 %	311	8 %
Reimbursement, general and administrative	33,040	25 %	30,425	24 %	2,615	9 %
Intangible asset amortization and earn- out	1,265	1 %	2,516	2 %	(1,251)	(50)%
Total operating expenses	94,647	71 %	91,515	72 %	3,132	3 %
Income (loss) from operations	2,885	2 %	(1,748)	(1)%	4,633	N.M. %
Other income (expense)	380	— %	(1,831)	(2)%	2,211	(121)%
Income (loss) before income taxes	3,265	2 %	(3,579)	(3)%	6,844	(191)%
Income tax expense (benefit)	1,176	1 %	(1,593)	(1)%	2,769	(174)%
Net income (loss)	<u>\$ 2,089</u>	3 %	<u>\$ (1,986)</u>	(2)%	<u>\$ 4,075</u>	N.M. %

Revenue

Revenue increased \$4.9 million, or 7%, to \$73.2 million in the three months ended June 30, 2024, compared to \$68.3 million in the three months ended June 30, 2023. The increase in total revenue was attributable to an increase of \$4.7 million, or 8%, in sales and rentals of the lymphedema product line and an increase of \$0.2 million, or 2%, in sales of the airway clearance product line in the three months ended June 30, 2024, compared to the three months ended June 30, 2023.

Revenue increased \$7.1 million, or 6%, to \$134.3 million in the six months ended June 30, 2024, compared to \$127.2 million in the six months ended June 30, 2023. The increase in total revenue was attributable to an increase of \$7.2 million, or 7%, in sales and rentals of the lymphedema product line, slightly offset by a decrease of \$0.1 million, or 1%, in sales of the airway clearance product line in the six months ended June 30, 2024, compared to the six months ended June 30, 2023.

The increase in the lymphedema product line revenue in each of the three and six months ended June 30, 2024, was attributable to the growth of our field sales team and continued strength of our lymphedema therapy solutions. The increase in the airway clearance product line revenue in the three months ended June 30, 2024, was primarily attributable to the onboarding of a new DME partner in 2024. The decrease in the airway clearance product line revenue in the six months ended June 30, 2024, was primarily 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 in May 2023 and a return to “pre-public health emergency” eligibility requirements, partially offset by the onboarding of a new DME partner in 2024.

The following table summarizes our revenue by product line for the three and six months ended June 30, 2024 and 2023, both in dollars and percentage of total revenue:

(In thousands)	Three Months Ended June 30,		Change	
	2024	2023	\$	%
Revenue				
Lymphedema products	\$ 64,683	\$ 59,999	\$ 4,684	8%
Airway clearance products	8,535	8,340	195	2%
Total	<u>\$ 73,218</u>	<u>\$ 68,339</u>	<u>\$ 4,879</u>	7%
Percentage of total revenue				
Lymphedema products	88%	88%		
Airway clearance products	12%	12%		
Total	<u>100%</u>	<u>100%</u>		

(In thousands)	Six Months Ended June 30,		Change	
	2024	2023	\$	%
Revenue				
Lymphedema products	\$ 116,996	\$ 109,751	\$ 7,245	7%
Airway clearance products	17,310	17,434	(124)	(1)%
Total	<u>\$ 134,306</u>	<u>\$ 127,185</u>	<u>\$ 7,121</u>	6%
Percentage of total revenues				
Lymphedema products	87%	86%		
Airway clearance products	13%	14%		
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 decreased \$0.9 million, or 5%, to \$19.1 million in the three months ended June 30, 2024, compared to \$20.0 million in the three months ended June 30, 2023. Cost of revenue decreased \$0.6 million, or 2%, to \$36.8 million in the six months ended June 30, 2024, compared to \$37.4 million in the six months ended June 30, 2023. The decrease in cost of revenue in both periods was primarily attributable to lower manufacturing and warranty costs.

Gross margin was 73.9% and 70.7% in the three months ended June 30, 2024 and 2023, respectively, and 72.6% and 70.6% in the six months ended June 30 2024 and 2023, respectively.

Sales and Marketing Expenses

Sales and marketing expenses increased \$0.4 million, or 1%, to \$28.6 million in the three months ended June 30, 2024, compared to \$28.2 million in the three months ended June 30, 2023. The increase was primarily

attributable to a \$0.7 million increase in meetings, seminars and tradeshow related expenses and a \$0.3 million increase in travel and entertainment expenses, partially offset by a \$0.2 million decrease in educational grants expense, a \$0.2 million decrease in expenses relating to demo units and a \$0.2 million decrease in personnel-related compensation expenses.

Sales and marketing expenses increased \$1.5 million, or 3%, to \$56.0 million in the six months ended June 30, 2024, compared to \$54.5 million in the six months ended June 30, 2023. The increase was primarily attributable to a \$0.7 million increase in travel and entertainment expenses, a \$0.6 million increase in meetings, seminars and tradeshow related expenses and a \$0.2 million increase in personnel-related compensation expenses.

Research and Development Expenses

Research and development (“R&D”) expenses increased \$0.4 million, or 22%, to \$2.2 million in the three months ended June 30, 2024, compared to \$1.8 million in the three months ended June 30, 2023. The increase was primarily attributable to a \$0.3 million increase in professional fees and a \$0.1 million increase in clinical study related expenses.

R&D expenses increased \$0.3 million, or 8%, to \$4.4 million in the six months ended June 30, 2024, compared to \$4.1 million in the six months ended June 30, 2023. The increase was primarily attributable to a \$0.1 million increase in professional fees, a \$0.1 million increase in clinical study related expenses and a \$0.1 million increase in personnel-related compensation expenses.

Reimbursement, General and Administrative Expenses

Reimbursement, general and administrative expenses increased \$1.8 million, or 12%, to \$16.8 million in the three months ended June 30, 2024, compared to \$15.0 million in the three months ended June 30, 2023. This increase was primarily attributable to a \$0.8 million increase in occupancy costs, depreciation expense and professional fees, a \$0.5 million increase in personnel-related compensation expenses and a \$0.5 million increase in IT related expenses.

Reimbursement, general and administrative expenses increased \$2.6 million, or 9%, to \$33.0 million in the six months ended June 30, 2024, compared to \$30.4 million in the six months ended June 30, 2023. This increase was primarily attributable to a \$1.0 million increase in personnel-related compensation expenses, a \$1.0 million increase in IT related expenses, and a \$0.6 million increase in occupancy costs, depreciation expense and professional fees.

Intangible Asset Amortization and Earn-out Expense

Intangible asset amortization and earn-out expense decreased \$0.6 million to \$0.6 million in the three months ended June 30, 2024, compared to \$1.2 million in the three months ended June 30, 2023. The decrease was related to there being no earn-out expense in the three months ended June 30, 2024, as final payment under the AffloVest Acquisition earn-out Arrangement was made on November 28, 2023, compared to an increase in the fair value of the earn-out expense of \$0.6 million for the three months ended June 30, 2023.

Intangible asset amortization and earn-out expense decreased \$1.3 million to \$1.3 million in the six months ended June 30, 2024, compared to \$2.5 million in the six months ended June 30, 2023. The decrease was related to there being no earn-out expense in the six months ended June 30, 2024, as final payment under the AffloVest Acquisition earn-out arrangement was made on November 28, 2023, compared to an increase in the fair value of the earn-out expense of \$1.2 million for the six months ended June 30, 2023.

Other Income (Expense), Net

We recorded other income, net of \$0.2 million and other expense, net of \$0.8 million for the three months ended June 30, 2024 and 2023, respectively. The primary drivers of the change were a decrease in interest expense of \$0.6 million and an increase in interest income of \$0.4 million.

We recorded other income, net of \$0.4 million and other expense, net of \$1.8 million for the six months ended June 30, 2024 and 2023, respectively. The primary drivers of the change were a decrease in interest expense of \$1.2 million and an increase in interest income of \$1.0 million.

Income Taxes

We recorded income tax expense of \$1.8 million and \$1.3 million for the three months ended June 30, 2024 and 2023, respectively. The primary driver of the change in our effective tax rate was the fact that we did not have a full valuation allowance on our deferred tax assets for the current year period, while the prior year period reported a full valuation allowance.

We recorded an income tax expense of \$1.2 million and an income tax benefit of \$1.6 million for the six months ended June 30, 2024 and 2023, respectively. The primary driver of the change in our effective tax rate was the fact that we did not have a full valuation allowance on our deferred tax assets for the current year period, while the prior year period reported a full valuation allowance. Additionally, in the prior year period we had year-to-date losses that we expected to realize, which drove a tax benefit.

Liquidity and Capital Resources

Cash Flows

At June 30, 2024, our principal sources of liquidity were cash and cash equivalents of \$73.6 million and net accounts receivable of \$46.4 million. This compares to cash and cash equivalents of \$63.2 million and net accounts receivable of \$62.0 million at June 30, 2023.

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

(In thousands)	Six Months Ended June 30,	
	2024	2023
Net cash provided by (used in):		
Operating activities	\$ 14,066	\$ 13,407
Investing activities	(1,027)	(1,142)
Financing activities	(454)	29,018
Net increase in cash and cash equivalents	\$ 12,585	\$ 41,283

Operating Activities

Net cash provided by operating activities during the six months ended June 30, 2024 was \$14.1 million, resulting from non-cash net income adjustments of \$7.3 million, a net increase in operating assets and liabilities of \$4.7 million and net income of \$2.1 million. The positive non-cash net income adjustments consisted primarily of \$3.9 million of stock-based compensation expense and \$3.3 million of depreciation and amortization expense. Cash provided relating to the change in operating assets and liabilities primarily consisted of a decrease in accounts receivable of \$7.7 million, a decrease in inventories of \$3.7 million and a \$0.6 million decrease in net investments in leases, partially offset by a decrease in accrued payroll and related taxes of \$4.7 million, a decrease in accounts payable of \$1.6 million and a decrease in income taxes payable of \$0.9 million.

Net cash provided by operating activities during the six months ended June 30, 2023 was \$13.4 million, resulting from a net increase in operating assets and liabilities of \$7.1 million and non-cash net loss adjustments

of \$8.3 million, which were partially offset by a net loss of \$2.0 million. Cash provided relating to the change in operating assets and liabilities primarily consisted of a decrease in accounts receivable of \$15.9 million, a decrease in net investment in leases of \$2.9 million and a decrease in inventories of \$2.8 million, partially offset by a decrease in accrued expenses of \$6.0 million, a decrease in accrued payroll and related taxes and income taxes payable of \$4.0 million, a decrease in income taxes payable of \$3.3 million, an increase in prepaid expenses of \$0.7 million and a decrease in accounts payable of \$0.7 million. The non-cash net loss adjustments consisted primarily of \$3.8 million of stock-based compensation expense, \$3.3 million of depreciation and amortization expense and a \$1.2 million change in fair value of earn-out liability.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2024, was \$1.0 million, consisting of purchases of property and equipment primarily related to tenant improvements, and patent costs.

Net cash used in investing activities during the six months ended June 30, 2023, was \$1.1 million, consisting of purchases of property and equipment, and patent costs.

Financing Activities

Net cash used in financing activities during the six months ended June 30, 2024, was \$0.5 million, primarily consisting of a \$1.5 million payment made on our term loan, partially offset by \$1.0 million in proceeds from the issuance of common stock under the ESPP.

Net cash provided by financing activities during the six months ended June 30, 2023, was \$29.0 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. The increase was partially offset by a payment of \$5.0 million on the AffloVest earn-out and a \$1.5 million payment made on our term loan.

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 amended 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.

On December 21, 2023, we made a payment of \$16.8 million to repay in full the outstanding balance on the revolving credit facility.

As of June 30, 2024, we had outstanding borrowings of \$27.8 million under the Credit Agreement, comprised entirely of the term loan. 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 8 – “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, 2023. There have been no material changes since December 31, 2023.

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.

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.

Inflation and changing prices did not have a material effect on our business during the quarter ended June 30, 2024, and we do not expect that inflation or changing prices will materially affect our business 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, 2023.

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, 2023. There have been no material changes since December 31, 2023.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2024. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2024, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the quarter ended June 30, 2024, 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 9 – “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, 2023, 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.

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Trading Arrangements

On May 15, 2024, Kristie T. Burns, our Senior VP Marketing and Clinical Affairs, adopted a pre-arranged trading plan that is intended to satisfy the affirmative defense of Rule 10b5-1(c) of the Exchange Act. This plan provides for the sale of up to 7,444 shares of our common stock in the aggregate and terminates on the earlier of the close of market on August 26, 2025, or the date all shares are sold thereunder.

On May 28, 2024, William W. Burke, Chairman of our Board of Directors, adopted a pre-arranged trading plan that is intended to satisfy the affirmative defense of Rule 10b5-1(c) of the Exchange Act. This plan provides for the sale of up to 7,013 shares of our common stock in the aggregate and terminates on the earlier of the close of market on December 31, 2025, or the date all shares are sold thereunder.

On June 10, 2024, Elaine M. Birkemeyer, Chief Financial Officer, adopted a pre-arranged trading plan that is intended to satisfy the affirmative defense of Rule 10b5-1(c) of the Exchange Act. This plan provides for the sale of up to 84,848 shares of our common stock in the aggregate and terminates on the earlier of the close of market on December 31, 2027, or the date all shares are sold thereunder.

On June 10, 2024, Daniel L. Reuvers, former Chief Executive Officer and current member of our Board of Directors, adopted a pre-arranged trading plan that is intended to satisfy the affirmative defense of Rule 10b5-1(c) of the Exchange Act. This plan provides for the sale of up to 130,564 shares of our common stock in

the aggregate and terminates on the earlier of the close of market on December 31, 2025, or the date all shares are sold thereunder.

During the quarter ended June 30, 2024, 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	Certificate of Amendment to Amended and Restated Certificate of Incorporation, dated May 8, 2024	8-K	05/09/2024	3.1	
3.3	Amended and Restated Certificate of Incorporation, conformed version reflecting all amendments through May 8, 2024				X
3.4	Amended and Restated By-laws, effective December 19, 2022	10-K	02/21/2023	3.2	
10.1	Offer Letter between Sheri L. Dodd and Tactile Systems Technology, Inc., dated April 23, 2024	8-K	04/23/2024	10.1	
10.2	Form of Confidentiality, Assignment of Intellectual Property and Restrictive Covenants Agreement	8-K	04/23/2024	10.2	
10.3	Transition Letter Agreement between Daniel L. Reuvers and Tactile Systems Technology, Inc., dated April 23, 2024	8-K	04/23/2024	10.4	
10.4	Clarification Letter between Daniel L. Reuvers and Tactile Systems Technology, Inc., dated June 20, 2024				X
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 June 30, 2024: (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: August 5, 2024

By: /s/ Elaine M. Birkemeyer
Elaine M. Birkemeyer
Chief Financial Officer
(Principal financial and accounting officer)

**AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
TACTILE SYSTEMS TECHNOLOGY, INC.**

(Conformed Version Reflecting All Amendments Through May 8, 2024)

ARTICLE 1

NAME

The name of the Corporation is Tactile Systems Technology, Inc.

ARTICLE 2

REGISTERED OFFICE

The address of the Corporation's registered office in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808, located in New Castle County. The name of the Corporation's registered agent for service of process at such address is Corporation Service Company.

ARTICLE 3

PURPOSE

Purposes. The Corporation will have general business purposes in accordance with the laws of the State of Delaware.

Powers. The Corporation will have and may exercise all the powers granted or available under the laws of the State of Delaware and laws amendatory thereof and supplementary thereto, including all powers necessary or convenient to effect any or all of the business purposes for which the Corporation is incorporated.

ARTICLE 4

STOCK

Authorized Capital Stock. The Corporation shall be authorized to issue 350,000,000 shares of capital stock, of which 300,000,000 shares shall be shares of common stock, par value \$0.001 per share (the "*Common Stock*"), and 50,000,000 shares shall be shares of preferred stock, par value \$0.001 per share (the "*Preferred Stock*").

Common Stock. Except as otherwise provided by law or by the resolution or resolutions adopted by the board of directors of the Corporation designating the rights, powers and preferences of any series of Preferred Stock, the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes. All shares of Common Stock will be voting shares and will be entitled to one vote per share. There shall be no cumulative voting.

Preferred Stock Rights. Shares of Preferred Stock may be issued from time to time in one or more series. The board of directors of the Corporation is hereby authorized by resolution or resolutions to fix the voting rights, if any, designations, powers, preferences and the relative, participation, optional or other rights, if any, and the qualifications, limitations or restrictions thereof, of any unissued series of Preferred Stock, to fix the number of shares constituting such series, and to increase or

decrease the number of shares of any such series (but not below the number of shares thereof then outstanding).

ARTICLE 5
BOARD OF DIRECTORS

Number of Directors; Vacancies and Removal.

Number. Except as otherwise provided by the resolution or resolutions adopted by the board of directors of the Corporation designating the rights, powers and preferences of any series of Preferred Stock, the number of directors of the Corporation shall be fixed, and may be increased or decreased from time to time, exclusively by the board of directors.

Removal. Subject to the rights, if any, of any series of Preferred Stock to elect directors and to remove any director whom the holders of any such series have the right to elect, any director (including persons elected by directors to fill vacancies in the board of directors) may be removed from office (i) only with cause and (ii) only by the affirmative vote of the holders of 75% or more of the outstanding shares of capital stock then entitled to vote at an election of directors. At least 45 days prior to any annual or special meeting of stockholders at which it is proposed that any director be removed from office, written notice of such proposed removal and the alleged grounds thereof shall be sent to the director whose removal will be considered at the meeting.

No Written Ballot. Unless and except to the extent that the by-laws of the Corporation shall so require, the election of directors of the Corporation need not be by written ballot.

ARTICLE 6
BY-LAWS

In furtherance and not in limitation of the powers conferred by law, the Board of Directors is expressly authorized to adopt, amend and repeal the by-laws of the Corporation, subject to the power of the holders of capital stock of the Corporation to adopt, amend or repeal the by-laws; provided, however, that, with respect to the power of holders of the capital stock to adopt, amend and repeal by-laws of the Corporation, notwithstanding any other provision of the by-laws or any provision of law which might otherwise permit a lesser vote or no vote, but in addition to any affirmative vote of the holders of any particular class or series of the capital stock of the Corporation required by law, the by-laws or any Preferred Stock, the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of the by-laws of the Corporation.

ARTICLE 7
AMENDING THE CERTIFICATE OF INCORPORATION

The Corporation reserves the right at any time from time to time to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law. All rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article.

ARTICLE 8

DIRECTOR AND OFFICER LIABILITY; INDEMNIFICATION AND INSURANCE

Elimination of Certain Liability of Directors and Officers. The personal liability of the directors and the officers of the Corporation shall be eliminated to the fullest extent permitted by law. If the DGCL is amended to authorize corporate action further eliminating or limiting the personal liability of directors or officers, then the liability of a director or an officer of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Indemnification.

Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a “*proceeding*”), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust or other enterprise, including service with respect to employee benefit plans maintained or sponsored by the Corporation, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, to the fullest extent permitted by law, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys’ fees, judgments, fines, amounts paid or to be paid in settlement, and excise taxes or penalties arising under the Employee Retirement Income Security Act of 1974) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph (b) below, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the board of directors of the Corporation. The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the DGCL requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Article or otherwise. The Corporation may, by action of the board of directors, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

Right of Claimant to Bring Suit. If a claim under paragraph (a) above is not paid in full by the Corporation within 30 days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the DGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its board of directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation (as it may be amended from time to time), by-law, agreement, vote of stockholders or disinterested directors or otherwise.

Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, limited liability company, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DCGL.

Amendment or Repeal. No amendment, modification or repeal of this Article, adoption of any provision in this Certificate of Incorporation, or change in the law or interpretation of the law shall adversely affect any right or protection of any person under this Article 8 with respect to any act or omission that occurred prior to the time of such amendment, modification, repeal, adoption or change.

ARTICLE 9 **STOCKHOLDER ACTION**

No Consent in Lieu of a Meeting. The stockholders of the Corporation may not act by written consent in lieu of meeting.

No Right to Call a Special Meeting. Except as otherwise required by law, special meetings of stockholders of the Corporation for any purpose or purposes may be called only by the Board of Directors, the Chairman of the Board or the Chief Executive Officer of the Corporation. Special meetings of the stockholders may not be called by any other person or persons.

ARTICLE 10
DISPUTE RESOLUTION

Exclusive Forum. Unless the Corporation consents in writing to the selection of an alternative forum, any or all internal corporate claims, which shall include claims, including claims in the right of the Corporation, (i) that are based upon a violation of a duty by a current or former director or officer or stockholder in such capacity, or (ii) as to which Title 8 of the DGCL confers jurisdiction upon the Delaware Court of Chancery, shall be brought solely and exclusively in a state court located within the State of Delaware (or, if no state court located in the State of Delaware has jurisdiction, the federal district court for the District of Delaware).

June 20, 2024

Daniel Reuvers (By E-Mail)

Dear Dan,

As a supplement to that certain letter agreement, between you and Tactile Systems Technology, Inc. dated April 23, 2024 (the "Letter"), we wish to clarify the provision titled "Your Equity Rights". For the avoidance of doubt, we confirm that, unless otherwise modified by separate written agreement between you and the Company, the date that your employment with the Company ends as provided in the Letter (contemplated to be March 31, 2025 unless earlier terminated as provided in the Letter) (the "Employment Termination Date") shall be deemed a termination of "Service" under the terms of your Equity Awards notwithstanding that you remain a director of the Company after the Employment Termination Date. Vesting of unvested performance share units and restricted stock units held by you on the Employment Termination Date shall cease as of such date and such Equity Awards will be forfeited, and any vested stock options held by you on that date will be exercisable for the period set forth therein as if your "Service" ended on the Employment Termination Date.

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Letter. The Letter shall remain and continue in full force and effect, as clarified by this letter.

Please sign and return this countersigned letter to me to confirm your agreement to the clarifications to the Letter set forth in this letter.

Sincerely,

/s/ Elaine Birkemeyer

Elaine Birkemeyer
Chief Financial Officer

Acknowledged and Agreed as of the date first written above:

/s/ Daniel Reuvers

Daniel Reuvers

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, Sheri L. Dodd, 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/ Sheri L. Dodd

Sheri L. Dodd
Chief Executive Officer

Date: August 5, 2024

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: August 5, 2024

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

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the "Company") for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Sheri L. Dodd, 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 her 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/ Sheri L. Dodd

Sheri L. Dodd
Chief Executive Officer

Date: August 5, 2024

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

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the "Company") for the period ended June 30, 2024, 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 her 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: August 5, 2024
