UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

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

Date of Report (Date of earliest event reported): February 3, 2020

Anika Therapeutics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	000-21326	04-3145961
(State or other jurisdiction of incorporation or organization)	*Commission file number*	*(I.R.S. Employer Identification No.)*

32 Wiggins Avenue, Bedford, MA 01730
(Address of principal executive offices) (Zip code)

(781)-457-9000
Registrant's telephone number, including area code:

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[_] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[_] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[_] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[_] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	ANIK	NASDAQ Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).
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. [_]

EXPLANATORY NOTE

On February 3, 2020, Anika Therapeutics, Inc. (the “Company”) filed a Current Report on Form 8-K (the “Original Form 8-K”) reporting the completion of its acquisition (the “Arthrosurface Merger”) of Arthrosurface Incorporated (“Arthrosurface”), pursuant to the Agreement and Plan of Merger, dated January 4, 2020 (the “Arthrosurface Merger Agreement”), by and among the Company, Arthrosurface, Button Merger Sub, Inc. (“Arthrosurface Merger Sub”) and Boston Millennia Partners Button Shareholder Representation, Inc., solely in its capacity as the representative, agent and attorney-in-fact of the Equityholders (as defined in the Arthrosurface Merger Agreement). This Current Report on Form 8-K/A amends and supplements Item 9.01(a) and 9.01(b) of the Original Form 8-K to provide financial statements and pro forma financial information required by such items, respectively.

Item 9.01. Financial Statements and Exhibits.

***(a) Financial Statements of Businesses Acquired*.**

The audited financial statements of Arthrosurface as of December 31, 2018 and for the years ended December 31, 2018 and 2017, and the notes related thereto, are filed as Exhibit 99.1 hereto and are incorporated by reference herein. The unaudited financial statements of Arthrosurface as of September 30, 2019 and the for the nine-months ended September 30, 2019 and 2018 are filed as Exhibit 99.2 and are incorporated by reference. The consent of BDO USA, LLP, Arthrosurface’s independent registered public accounting firm, is filed as Exhibit 23.1.

***(b) Pro Forma Financial Information*.**

The unaudited pro forma condensed combined balance sheet as of September 30, 2019, giving effect to the Arthrosurface Merger as if it occurred on September 30, 2019, and the unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2019 and the year ended December 31, 2018, in each case giving effect to the Arthrosurface Merger as if it occurred on January 1, 2018, are filed as Exhibit 99.3 hereto and incorporated herein by reference.

***(d) Exhibits*.**

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm
99.1	Audited financial statements of Arthrosurface Incorporated as of December 31, 2018 and for the years ended December 31, 2018 and 2017, and the notes related thereto.
99.2	Unaudited financial statements of Arthrosurface Incorporated as of September 30, 2019 and for the nine months ended September 30, 2019 and 2018.
99.3	Unaudited pro forma condensed combined balance sheet as of September 30, 2019, giving effect to the Arthrosurface Merger as if it occurred on September 30, 2019, and the unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2019 and the year ended December 31, 2018 in each case giving effect to the Arthrosurface Merger as if it occurred on January 1, 2018.

SIGNATURE

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 hereunto duly authorized.

Anika Therapeutics, Inc.

Date: March 13, 2020	By:	/s/ SYLVIA CHEUNG
		Chief Financial Officer

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Anika Therapeutics, Inc.
Bedford, Massachusetts

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-110326, 333-160102, 333-176103, 333-190597, 333-219190 and 333-232254) of Anika Therapeutics, Inc. of our report dated April 22, 2019, relating to the financial statements of Arthrosurface, Inc., which appear in this Form 8-K/A.

/s/ BDO USA, LLP

Boston, Massachusetts

March 12, 2020

Arthrosurface, Inc.

Financial Statements
Years Ended December 31, 2018 and 2017

Arthrosurface, Inc.

Financial Statements
Years Ended December 31, 2018 and 2017

Arthrosurface, Inc.

Contents

Independent Auditor's Report 3-4

Financial Statements

Balance Sheets 6-7

Statements of Operations 8

Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity 9

Statements of Cash Flows 10

Notes to Financial Statements 11-22

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Independent Auditor's Report

Board of Directors
Arthrosurface, Inc.
Franklin, Massachusetts

We have audited the accompanying financial statements of Arthrosurface, Inc., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, redeemable convertible preferred stock and stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arthrosurface, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

April 22, 2019

Financial Statements

Arthrosurface, Inc.

Balance Sheets

December 31,		**2018**		2017
Assets				
Current Assets:				
Cash and cash equivalents	**$**	**109,945**	$	685,901
Accounts receivable, net of reserves of $833,471 and $832,134 in 2018 and 2017, respectively		**5,538,254**		6,194,631
Inventory, net of reserve of $494,802 and $606,414 in 2018 and 2017, respectively		**9,813,841**		9,402,056
Prepaid expenses and other current assets		**795,092**		433,157
Total Current Assets		**16,257,132**		16,715,745
Property and Equipment:				
Medical instruments		**18,031,426**		16,863,117
Computer equipment and software		**963,386**		952,482
Dies and molds		**864,424**		810,924
Furniture and fixtures		**622,645**		617,395
Leasehold improvements		**87,703**		87,703
Machinery and equipment		**46,033**		46,033
		20,615,617		19,377,654
Less accumulated depreciation and amortization		**19,191,795**		18,244,445
Total Property and Equipment		**1,423,822**		1,133,209
Other Assets:				
Deferred Taxes		**1,127,318**		2,599,712
Total Assets	**$**	**18,808,272**	$	20,448,666

See accompanying notes to the financial statements.

Arthrosurface, Inc.

Balance Sheets

December 31,		**2018**		2017
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity				
Current Liabilities:				
Notes payable, line of credit	**$**	**1,142,601**	$	–
Accounts payable		**395,887**		491,882
Accounts payable - related party		**431,782**		431,794
Accrued expenses		**2,115,534**		1,778,435
Total Current Liabilities		**4,085,804**		2,702,111
Commitments (Notes 11 and 12)				
Redeemable Convertible Preferred Stock:				
Series B redeemable convertible preferred stock, $0.001 par value; 2,000,000 shares designated, issued and outstanding (liquidation preference of $2,000,000)		**9,500,000**		9,500,000
Stockholders' Equity:				
Series A convertible preferred stock, $0.001 par value; 3,311,557 shares designated, issued and outstanding (liquidation preference of $3,311,557)		**3,097,680**		3,097,680
Series C convertible preferred stock, $0.001 par value; 4,000,000 shares designated; 2,448,500 shares issued and outstanding (liquidation preference of $6,121,250)		**5,760,374**		5,760,374
Series D convertible preferred stock, $0.001 par value; 3,057,724 shares designated, issued and outstanding (liquidation preference of $10,702,034)		**10,622,252**		10,622,252
Series E convertible preferred stock, $0.001 par value; 1,131,112 shares designated; 1,111,112 shares issued and outstanding (liquidation preference of $5,000,004)		**4,969,845**		4,969,845
Series F convertible preferred stock, $0.001 par value; 1,052,632 shares designated; 884,608 shares issued and outstanding (liquidation preference of $4,201,888)		**4,167,632**		4,167,632
Common stock, $0.001 par value; 22,000,000 shares authorized; 6,570,944 shares issued and outstanding		**6,573**		6,573
Additional paid-in capital		**1,025,650**		974,999
Accumulated deficit		**(24,427,538)**		(21,352,800)
Total Stockholders' Equity		**5,222,468**		8,246,555
Total Redeemable Convertible Preferred Stock and Stockholders' Equity		**14,722,468**		17,746,555
Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity	**$**	**18,808,272**	$	20,448,666

See accompanying notes to the financial statements.

Arthrosurface, Inc.

Statements of Operations

Years ended December 31,		**2018**		2017
Net Revenues	**$**	**27,168,764**	$	25,876,568
Cost of Goods Sold		**6,416,924**		5,454,714
Gross Profit		**20,751,840**		20,421,854
Operating Expenses:				
Selling and marketing		**16,247,991**		14,771,820
Research and development		**3,210,921**		3,050,456
General and administrative		**2,846,651**		2,939,370
Total Operating Expenses		**22,305,563**		20,761,646
Loss from Operations		**(1,553,723)**		(339,792)
Other Income (Expense):				
Interest income		**–**		741
Interest expense		**(7,558)**		–
Other income		**564**		21,690
Loss before Income Taxes		**(1,560,717)**		(317,361)
Income Tax Expense		**1,514,021**		263,113
Net Loss	**$**	**(3,074,738)**	$	(580,474)

See accompanying notes to the financial statements.

Arthrosurface, Inc.

Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity

	Series B Redeemable Convertible Preferred Stock	Series A Convertible Preferred Stock	Series C Convertible Preferred Stock	Series D Convertible Preferred Stock	Series E Convertible Preferred Stock	Series F Convertible Preferred Stock	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Total Redeemable Convertible Preferred Stock and Stockholders' Equity
							Shares	Par Value				
Balance at December 31, 2016	$ 9,500,000	$ 3,097,680	$ 5,760,374	$ 10,622,252	$ 4,969,845	$ 4,167,632	6,460,265	$ 6,462	$ 699,226	$ (20,772,326)	$ 8,551,145	$ 18,051,145
Exercise of common stock options	–	–	–	–	–	–	110,679	111	164,801	–	164,912	164,912
Stock-based compensation expense	–	–	–	–	–	–	–	–	110,972	–	110,972	110,972
Net income	–	–	–	–	–	–	–	–	–	(580,474)	(580,474)	(580,474)
Balance at December 31, 2017	9,500,000	3,097,680	5,760,374	10,622,252	4,969,845	4,167,632	6,570,944	6,573	974,999	(21,352,800)	8,246,555	17,746,555
Stock-based compensation expense	–	–	–	–	–	–	–	–	50,651	–	50,651	50,651
Net income	–	–	–	–	–	–	–	–	–	(3,074,738)	(3,074,738)	(3,074,738)
Balance at December 31, 2018	$ 9,500,000	$ 3,097,680	$ 5,760,374	$ 10,622,252	$ 4,969,845	$ 4,167,632	6,570,944	$ 6,573	$ 1,025,650	$ (24,427,538)	$ 5,222,468	$ 14,722,468

See accompanying notes to financial statements.

Arthrosurface, Inc.

Statements of Cash Flows

Years ended December 31,		**2018**		2017
Cash Flows from Operating Activities:				
Net loss	**$**	**(3,074,738)**	$	(580,474)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		**947,350**		1,098,382
Change in reserves		**(110,275)**		(57,820)
Deferred taxes		**1,472,394**		247,618
Stock-based compensation		**50,651**		110,972
Increase (decrease) in cash resulting from a change in:				
Accounts receivable		**655,040**		(761,076)
Inventory		**(300,173)**		(238,922)
Prepaid expenses and other current assets		**(361,935)**		(98,197)
Accounts payable		**(95,995)**		100,542
Accounts payable - related party		**(12)**		152,976
Accrued expenses		**337,099**		(216,252)
Net Cash Used in Operating Activities		**(480,594)**		(242,251)
Cash Flows from Investing Activity:				
Purchases of property and equipment		**(1,237,963)**		(412,720)
Net Cash Used in Investing Activity		**(1,237,963)**		(412,720)
Cash Flows from Financing Activities:				
Proceeds from note payable, line of credit		**1,142,601**		–
Proceeds from exercise of stock options		**–**		164,912
Net Cash Provided by Financing Activities		**1,142,601**		164,912
Net Decrease in Cash and Cash Equivalents		**(575,956)**		(490,059)
Cash and Cash Equivalents, beginning of year		**685,901**		1,175,960
Cash and Cash Equivalents, end of year	**$**	**109,945**	$	685,901
Supplemental Disclosures of Cash Flow Information				
Cash paid during the year for:				
Income Taxes	**$**	**41,627**	$	15,495
Interest	**$**	**7,558**	$	–

See accompanying notes to financial statements.

1. Business Operations

Arthrosurface, Inc. (the "Company") was incorporated in Delaware in August 2001. The Company was formed to design, develop, manufacture, and market new surgical alternatives for the treatment of orthopedic joint disease. The Company is located primarily in Massachusetts and serves customers throughout the world.

The Company is subject to a number of risks associated with emerging, technology-oriented companies. Principal among these are the risks associated with dependence on key individuals, rapid technology change, competition from larger, more financially independent competitors, and the need for successful development and marketing of services and products.

2. Significant Accounting Policies

A summary of the significant accounting policies followed by the Company in the presentation of the accompanying financial statements is set forth below:

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts equal to estimated bad debt losses. The estimated losses are based on historical collection experience together with a review of the current status of existing receivables. The Company's allowance for doubtful accounts was $310,900 and $416,194 at December 31, 2018 and 2017, respectively, and was netted with accounts receivable in the accompanying balance sheets, along with the sales return reserve.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined on a first-in, first-out ("FIFO") basis. Inventory consists principally of purchased components, the majority of which are considered finished goods. The Company provides a reserve for obsolescence equal to estimated losses resulting from obsolete inventory. The estimated losses are based upon historical product useful lives and a review of the current status of the existing inventory.

Property and Equipment

Property and equipment are stated at cost. Major renewals, additions, and betterments are charged to the property accounts, while replacements, maintenance, and repairs, which do not improve or extend the lives of the respective assets, are expensed in the year incurred.

Depreciation and Amortization

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the related assets as follows:

Assets	Life in Years
Medical instruments	3
Computer equipment and software	3
Dies and molds	3
Furniture and fixtures	7
Leasehold improvements	Life of lease
Machinery and equipment	5

Impairment of Long-lived Assets

The Company periodically evaluates its long-lived assets for events and circumstances that indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. The Company believes the future cash flows to be generated from the long-lived assets will exceed the assets' carrying value, and accordingly, the Company has not recognized any impairment losses through December 31, 2018.

Redeemable Convertible Preferred Stock

The carrying value of the Series B redeemable convertible preferred stock is increased or decreased by periodic accretion so that the carrying amount will equal the redemption amount at the redemption date. The accretion is recorded as a decrease in additional paid-in capital until the balance becomes zero, with the remainder being recorded against the accumulated deficit.

Fair Value of Financial Instruments

Certain assets and liabilities are carried at fair value under U.S. GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of the Company’s cash and cash equivalents, accounts receivable, accounts payable, and accounts payable – related party, approximate fair value due to the immediate or short-term maturity of these financial instruments.

Revenue Recognition

The Company’s revenue consists of sales of products directly to hospitals and distributors. The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed and determinable, the risk of loss has transferred to the customer, the Company’s performance obligations are complete, delivery has occurred, and collection is reasonably assured. Revenue from sales to distributors is reported net of sales returns, including an estimate of future returns based on historical return rates, with a corresponding reduction to cost of goods sold. The Company’s sales return reserve was $522,571 and $415,940 at December 31, 2018 and 2017, respectively, and was netted with accounts receivable in the accompanying balance sheets.

Research and Development Costs

The Company accounts for its research and development costs in accordance with Accounting Standards Codification (“ASC”) 730, “Research and Development.” Accordingly, research and development costs are charged to expense as incurred.

Advertising Costs

Advertising costs are charged to operations as incurred. The advertising costs incurred were $150,894 and $111,853 for the years ended December 31, 2018 and 2017, respectively.

Stock-Based Compensation

The Company accounts for its stock-based compensation based on the fair value recognition provisions of ASC 718, “Compensation: Stock Compensation.” The Company is required to include an estimate of the number of awards that will be forfeited in calculating compensation costs, which is recognized over the requisite service period of the awards on a straight-line basis.

There were no options granted in 2018 or 2017.

Stock-based awards issued to non-employees are accounted for at their fair market value. The compensation expense that will ultimately be recognized for these options will be measured at the vesting dates of the underlying options. There were 26,295 outstanding non-employee options as of December 31, 2018 and 2017. As these options vest, the Company will be required to re-measure the fair value of these options at each reporting period prior to vesting and finally at the vesting date of the option. Changes in the estimated fair value of these non-employee options will be recognized as compensation expense or a reduction in compensation expense in the period of the change.

Total stock-based compensation expense related to employee stock options was $50,651 and $110,972 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there are no unrecognized compensation costs related to all non-vested stock options.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company evaluates the realizability of its deferred tax assets and assesses the need for a valuation allowance on an ongoing basis. In evaluating the deferred tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of the deferred tax assets depends upon generating sufficient future taxable income during the periods in which the Company’s temporary differences either become deductible or expire. This assessment requires significant judgement. Any future changes in the valuation allowance could result in additional income tax expense or benefit and could decrease or increase stockholders’ equity, and such changes could have significant impact upon future earnings.

The Company may recognize tax benefits only in the event that a position is more likely than not to be sustained upon examination by the applicable taxing authority. There are no federal or state income tax audits in progress as of December 31, 2018, and the Company does not believe it has any uncertain tax positions.

Medical Device Tax

The Consolidated Appropriations Act of 2016, which was signed into law on December 18, 2015, temporarily repealed the medical device tax to which the Company is subject for sales of listed medical devices sold within the United States of America. The repeal was effective for the period beginning January 1, 2016, through December 31, 2017. During 2018, H.R. 195 (the “Continuing Resolution”) was signed into law which extended the temporary repeal of the medical device tax through December 31, 2019.

Recent Accounting Pronouncements Affecting the Company

In May 2014, the Financial Accounting Standards Board (“FASB”) issued converged guidance on recognizing revenue in contracts with customers, Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*. The intent of the new standard is to improve financial reporting and comparability of revenue globally. The core principle of the standard is for a company to recognize revenue in a manner that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the company expects to receive in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and in certain circumstances, allowing estimates of variable consideration to be recognized before contingencies are resolved. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The standard is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the provisions of this standard to determine the impact on the Company’s financial statements.

In February 2016, the FASB issued ASU 2016-02, which amends the ASC and creates Topic 842, *Leases*. Topic 842 will require lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under previous U.S. GAAP on the balance sheet. This guidance is effective for nonpublic business entities for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company is in the initial stages of evaluating the effect of the standard on its financial statements and will continue to evaluate. While not yet in a position to assess the full impact of the application of the new standard, the Company expects that the impact of recording the lease liabilities and the corresponding right-to-use assets will have a minimal impact on its total assets and liabilities with a minimal impact on equity.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, that changes the impairment model for most financial assets and certain other instruments. For receivables, loans, and other instruments, entities will be required to use a new forward-looking current expected credit loss model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except the losses will be recognized as allowances instead of reductions in the amortized cost of the securities. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators, and past due securities. The new provisions will be applied as a cumulative-effect adjustment to retained earnings. The Company will adopt the new standard on January 1, 2023. The Company is evaluating the impact that the new standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance related to cash flows presentation and is effective for annual reporting periods beginning after December 15, 2018. The guidance in ASU 2016-15 is generally consistent with the Company's current cash flow classifications, and adoption of this standard is not expected to have a material impact on its financial statements.

Subsequent Events

The Company has evaluated subsequent events through April 22, 2019, which is the date the financial statements were available for issuance.

3. Related-Party Transactions

The Company purchases a majority of its products from Primo Medical Group, Inc. ("PMG"), a related entity through common ownership. During the years ended December 31, 2018 and 2017, the Company purchased goods totaling $7,390,588 and $5,179,001 from PMG, respectively. At December 31, 2018 and 2017, the Company had amounts owed to PMG of $431,782 and $431,794, respectively.

4. Line of Credit

The Company has a revolving line of credit agreement with a bank with a maximum borrowing limit of $4,000,000. The line of credit is secured by all corporate assets, with the exception of intellectual property, and is subject to reporting covenants. The line of credit accrues interest at the bank's prime rate (5.5% as of December 31, 2018) plus 0.25%; however, in no event shall the interest rate be less than 3.75%. At December 31, 2018 and 2017, the outstanding balance was $1,142,601 and $-0-, respectively.

5. Accrued Expenses

Accrued expenses consist of the following at:

December 31,		**2018**		2017
Commissions	**$**	**725,387**	$	875,223
Payroll, bonus and employee benefits		**715,406**		519,233
Royalties		**176,040**		144,830
Sales tax		**24,985**		15,588
Other liabilities		**473,716**		223,561
Total Accrued Expenses	**$**	**2,115,534**	$	1,778,435

6. Detachable Series E Preferred Stock Warrants

In August 2007, in connection with entering into a prior credit facility with a bank, the Company issued an initial 13,333 warrants for the right to purchase Series E Preferred Stock. Additional warrants were issued when the Company borrowed $3,000,000 against the facility in July 2008 at a rate of 1% multiplied by the funds borrowed divided by the warrant price at the time of each funding. As such, the Company issued the additional 6,667 warrants related to the borrowings of the facility. The exercise price per share is equal to the most recent Series E Preferred Stock share price, which at the time of borrowing was $4.50 per share. The warrants expire 10 years from issuance. The Company has expensed the fair value of the entire 20,000 warrants over the full-term of the facility. During 2017, the warrant expiration date was extended to August 2019.

The fair value of the warrants was estimated using the Black-Scholes-Merton formula with the following assumptions: no dividend yield, risk free interest rate of 4.63%, a weighted average expected life of 10 years, and an estimated volatility of 46%. The discount was netted against the note payable, and the remaining costs were expensed monthly through July 2011.

7. Redeemable Convertible and Convertible Preferred Stock

At December 31, 2018, the Company had authorized 15,311,557 shares of preferred stock, of which 2,000,000 were designated Series B redeemable convertible preferred stock ("Series B Preferred Stock"), 3,311,557 were designated Series A convertible preferred stock ("Series A Preferred Stock"), 4,000,000 were designated Series C convertible preferred stock ("Series C Preferred Stock"), 3,057,724 were designated Series D convertible preferred stock ("Series D Preferred Stock"), 1,131,112 were designated Series E convertible preferred stock ("Series E Preferred Stock"), and 1,052,632 were designated Series F convertible preferred stock ("Series F Preferred Stock").

The Series B, Series A, Series C, Series D, Series E, and Series F Preferred Stock (collectively known as "Preferred Stock") have the following characteristics:

Voting

In general, the holders of the Preferred Stock are entitled to vote together with all other classes and series of stock of the Company as a single class on all actions to be taken by the stockholders of the Company. Each holder of the Preferred Stock is entitled to the number of votes equal to the number of shares of common stock into which each share of preferred stock is convertible at the time of such vote. The holders of the Series B Preferred Stock and common stock shall be entitled to elect one and four directors of the Company, respectively.

Dividends

Upon the declaration by the Company of dividends payable to the holders of the Company's common stock, the holders of the Preferred Stock are entitled to dividends equal to the amount of dividends payable to the holders of the common stock on an as-if converted basis. No dividends shall be paid on the Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, and Series F Preferred Stock until any and all dividends declared on the Series B Preferred Stock are paid in full. Through December 31, 2018, no dividends have been declared or paid by the Company.

Liquidation Preference

In the event of any voluntary or involuntary sale, liquidation, dissolution, or winding-up of the Company, the holders of the shares of Series B Preferred Stock shall be paid an amount equal to $1.00 per share, plus, in the case of each share, an amount equal to any declared but unpaid dividends.

If, upon liquidation, dissolution, or winding-up of the Company, the assets of the Company are not sufficient to permit payment of the full liquidation preference of the Series B Preferred Stock, the assets will be distributed to the Series B Preferred Stock stockholders pro rata. In addition, in no event shall the amount to be distributed to the holders of the Series B Preferred Stock be less than the $2.00 per share of common stock which would be issuable upon the conversion of the Series B Preferred Stock.

Immediately after payment in full of the liquidation payment to the holders of the Series B Preferred Stock listed above, the holders of the Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, and Series F Preferred Stock shall be paid an amount equal to $1.00 per share, $2.50 per share, $3.50 per share, $4.50 per share, and $4.75 per share, respectively, plus, in the case of each share, an amount equal to any declared but unpaid dividends. If, upon liquidation, dissolution, or winding-up of the Company, the assets of the Company are not sufficient to permit payment of the full liquidation preference of the Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, and Series F Preferred Stock, the assets will be distributed to the holders of such stock pro rata. After payment of the above mentioned amounts to the holders of the Preferred Stock, the remaining net assets of the Company shall be distributed to the holders of the Series B Preferred Stock and the holders of the common stock equally on an as-if converted basis.

Conversion

The holders of the Preferred Stock have the right, at their option at any time, to convert any such shares of Preferred Stock into fully paid and non-assessable shares of common stock on a one-for-one basis. The conversion rate is subject to anti-dilution adjustments and adjustments in the event of stock dividends, stock splits, and similar recapitalizations. If the holders of at least a majority interest in a particular series of Preferred Stock elect to convert such stock into common stock, then all of the outstanding shares in that series of preferred stock shall automatically convert into common stock. In addition, if the holders of at least a majority interest in the Series B Preferred Stock elect to convert such stock into common stock, then all of the outstanding shares of Preferred Stock automatically convert into common stock. Furthermore, all outstanding shares of Preferred Stock automatically convert into common stock, at the then-applicable conversion rate, upon consummation of a firm commitment for an underwritten public offering of the common stock yielding a per share price of at least $4.00 and gross proceeds of at least $20,000,000.

Redemption

The holders of at least a majority of the outstanding Series B Preferred Stock may, by written request, require the Company to redeem all of the outstanding Series B Preferred Stock by paying in cash a sum equal to the greater of the then fair value per share of the Series B Preferred Stock or the original purchase price of $1.00 per share plus all dividends declared and unpaid on each share. The required redemption amount of the Series B Preferred Stock outstanding as of December 31, 2018, calculated using an estimated fair value of $4.75 per share, would be $9,500,000. The fair value of $4.75 was estimated by management by referencing the last round of preferred stock financing; actual fair value may be significantly different upon an actual redemption.

8. Common Stock

As of December 31, 2018, the Company had authorized 22,000,000 shares of common stock, $0.001 par value per share. Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. Common stockholders are entitled to receive dividends, if any, as may be declared by the Board of Directors, subject to the prior rights of holders of the Preferred Stock outstanding. Upon the dissolution or liquidation of the Company, the holders of the common stock will be entitled to receive assets of the corporation available for distribution to its stockholders, subject to the preferential rights of the Preferred Stock.

The Company periodically issues shares of common stock, primarily to certain employees and other consultants who assist the Company, to promote the interests of the Company by providing long-term incentives through equity sharing ("restricted stock"). The stockholders of the restricted stock may not sell, assign, transfer, or pledge any of their shares without giving written notice to the Company. In the event that these stockholders cease to be employed by the Company, or otherwise cease to be affiliated with the Company, the Company has the right to repurchase some or all of the unvested shares at a price of $0.001 per share. Shares subject to the repurchase rights generally vest over a four-year period. As of December 31, 2018 and 2017, the Company had 3,056,815 shares that were outstanding and vested.

9. Stock Option Plan

In 2003, the Company adopted the 2002 Stock Plan (the "2002 Plan"). During 2012, the Company's Board of Directors amended the 2002 Plan to increase the shares of the Company's common stock reserved for issuance to employees, directors, and consultants to 3,600,000. During 2013, the Company's Board of Directors created the 2013 Stock Incentive Plan (the "Plan") to amend and replace the 2002 Plan. Options granted under the Plan may be incentive or non-statutory stock options. Stock purchase rights may also be granted under the Plan. Incentive stock options may only be granted to employees. The Board of Directors determines the period over which options become exercisable. Generally, stock options issued under the Plan vest over a period of four years and have contractual lives of 10 years. As of December 31, 2018 and 2017, there were 410,935 shares left for issuance under the Plan.

The following table summarizes the stock options activity of the Plan for the years ended December 31, 2018 and 2017:

	Options Outstanding	Weighted Average Exercise Price
Options Outstanding at December 31, 2016	516,474	$ 2.87
Exercised	(110,679)	1.49
Cancelled	(121,000)	2.79
Options Outstanding at December 31, 2017	284,795	3.44
No activity	–	–
Options Outstanding at December 31, 2018	284,795	$ 3.44

The following table summarizes information about stock options outstanding and exercisable under the Plan at December 31, 2018:

	Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 3.00	104,000	3.78 years	$ 3.00	104,000	3.78 years	$ 3.00
3.69	180,795	5.64 years	3.69	145,141	5.64 years	3.69
	284,795	4.93 years	3.44	249,141	4.95 years	3.44

10. Income Taxes

The provision for income taxes shown in the accompanying statements of operations consisted of the following amounts:

Years ended December 31,		**2018**		2017
Current Income Tax:				
Federal	**$**	**–**	$	–
State		**41,627**		15,495
Total Current Income Tax		**41,627**		15,495
Deferred Income Tax:				
Federal		**(261,000)**		1,723,000
State		**(9,000)**		(74,000)
Increase in (release of) valuation allowance		**1,742,394**		(1,401,382)
Total Deferred Income Tax Expense		**1,472,394**		247,618
Total Income Tax Expense	**$**	**1,514,021**	$	263,113

Components of the Company's deferred tax assets were as follows:

December 31,		**2018**		2017
Deferred Tax Assets:				
Net operating loss carryforwards	**$**	**2,617,000**	$	2,554,000
Research and development credits		**1,774,000**		1,724,000
Other		**487,000**		330,000
		4,878,000		4,608,000
Valuation Allowance		**(3,750,682)**		(2,008,288)
Net Deferred Tax Assets	**$**	**1,127,318**	$	2,599,712

The enactment of the Tax Cuts and Jobs Act ("Tax Reform Act") on December 22, 2017, changes U.S. tax law by lowering corporate income tax rates. The Tax Reform Act permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. As a result of the reduction in the U.S. corporate income tax rate, the Company revalued its ending net deferred tax assets at December 31, 2017, and recognized a provisional $1,640,000 tax expense in the Company's statement of operations for the year ended December 31, 2017.

The Company recorded a tax provision in the amount of $1,514,021 and $263,113 for the years ended December 31, 2018 and 2017, respectively, resulting in an effective tax rate that significantly deviates from the Company's statutory tax rate of 25.5% and 38.9%, respectively. This deviation from the statutory tax rate is the result of the valuation allowance released from or placed on all deferred taxes in these periods. The valuation allowance reflects the Company's evaluation of the positive and negative evidence concerning the Company's future profitability within the relevant tax jurisdictions.

At December 31, 2018, the Company had federal net operating loss carryforwards of approximately $12,426,000. The federal net operating loss carryforwards will begin to expire in 2025, unless utilized. At December 31, 2018, the Company also had federal and state research and development credit carryforwards of approximately $1,423,000 and $1,373,000, respectively. The federal and state research and development credit carryforwards will begin to expire in 2024 and 2018, respectively.

During the Company's 2018 and 2017 assessments of the need for a valuation allowance against the carrying value of the deferred tax assets, management determined, based upon recent and future expected profitability, that it is more likely than not that the Company would generate sufficient pre-tax income in future periods to utilize $1,127,318 and $2,599,712 of the deferred taxes, respectively.

Realization of the future tax benefits is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss and research and development credit carryforward periods. Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership, including a sale of the Company or significant changes in ownership due to the sale of capital stock, may have limited, or may limit in the future, the amount of net operating loss carryforwards which could be used annually to offset future taxable income.

11. Retirement Plan

The Company sponsors a 401(k) plan that covers substantially all employees of the Company. The employer matches contributions on behalf of contributing participants in an amount equal to 50% of the first 6% of such participants' annual deferrals. The Company made contributions of $157,961 and $146,952 for the years ended December 31, 2018 and 2017, respectively.

12. Commitments

The Company has entered into agreements to lease its office space and certain office equipment under non-cancelable operating leases expiring at various dates through March 2020. The Company makes monthly payments relating to these leases in amounts ranging from $315 to $9,615. Rent expense under these operating leases for the years ended December 31, 2018 and 2017, was $119,154 and $117,182, respectively. The future minimum lease payments under all operating leases at December 31, 2018, is $148,943. Subsequent to year-end, the Company extended the lease of its office space through March 2020, with monthly payments due of $9,615.

13. Royalty Agreements

The Company has entered into various royalty agreements with physicians who have provided consultation and product development services pertaining to the Shoulder, Uni-Knee, Patello-Femoral, Toe, and Allograft products. The Company has royalty agreements with several physicians with limited time durations, based on percentages of sales.

Royalty payment obligations are based upon various percentages of net sales pertinent to the products covered by the respective royalty arrangements. Accrued royalty expenses as of December 31, 2018 and 2017, were $176,040 and $144,830, respectively.

14. Concentrations

The Company had one major vendor accounting for approximately 34% and 28% of the Company's purchases for the years ended December 31, 2018 and 2017, respectively.

The Company had one major customer accounting for approximately 13% and 11% of accounts receivable at December 31, 2018 and 2017, respectively.

The Company has a potential concentration of credit risk in that it sometimes maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The maximum deposit insurance amount is $250,000, which is applied per depositor, per insured bank for each account ownership category. As of December 31, 2018, the Company had no cash in excess of FDIC limits.

Exhibit 99.2

Arthrosurface, Inc.

Condensed Interim Financial Statements
Nine Months Ended September 30, 2019 and 2018

Arthrosurface, Inc.

Condensed Interim Financial Statements
Nine Months Ended September 30, 2019 and 2018

Arthrosurface, Inc.

Contents

Financial Statements

Condensed Balance Sheets	4-5
Condensed Statements of Operations	6
Condensed Statements of Redeemable Convertible Preferred Stock and Stockholders’ Equity	7
Condensed Statements of Cash Flows	8
Notes to Condensed Financial Statements	9-20

Condensed Interim Financial Statements

Arthrosurface, Inc.

Condensed Balance Sheets

		(Unaudited) September 30, 2019		December 31, 2018
Assets				
Current Assets:				
Cash and cash equivalents	**$**	**110,066**	$	109,945
Accounts receivable, net of reserves of $837,257 and $833,471 at September 30, 2019 and December 31, 2018, respectively		**3,505,181**		5,538,254
Inventory, net of reserve of $419,958 and $494,802 at September 30, 2019 and December 31, 2018, respectively		**11,531,145**		9,813,841
Prepaid expenses and other current assets		**367,166**		795,092
Total Current Assets		**15,513,558**		16,257,132
Property and Equipment:				
Medical instruments		**18,972,144**		18,031,426
Dies and molds		**979,354**		864,424
Computer equipment and software		**972,780**		963,386
Furniture and fixtures		**681,365**		622,645
Leasehold improvements		**87,703**		87,703
Machinery and equipment		**46,033**		46,033
		21,739,379		20,615,617
Less accumulated depreciation and amortization		**19,875,013**		19,191,795
Total Property and Equipment		**1,864,366**		1,423,822
Other Assets:				
Deferred Taxes		**4,329,632**		1,127,318
Total Assets	**$**	**21,707,556**	$	18,808,272

See accompanying notes to unaudited condensed interim financial statements.

Arthrosurface, Inc.

Condensed Balance Sheets

	(Unaudited) September 30, 2019	December 31, 2018
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity		
Current Liabilities:		
Notes payable, line of credit	**$ 1,926,798**	$ 1,142,601
Accounts payable	**935,793**	395,887
Accounts payable - related party	**1,288,138**	431,782
Accrued expenses	**1,647,837**	2,115,534
Total Current Liabilities	**5,798,566**	4,085,804
Commitments (Notes 11 and 12)		
Redeemable Convertible Preferred Stock:		
Series B redeemable convertible preferred stock, $0.001 par value; 2,000,000 shares designated, issued and outstanding (liquidation preference of $2,000,000)	**9,500,000**	9,500,000
Stockholders' Equity:		
Series A convertible preferred stock, $0.001 par value; 3,311,557 shares designated, issued and outstanding (liquidation preference of $3,311,557)	**3,097,680**	3,097,680
Series C convertible preferred stock, $0.001 par value; 4,000,000 shares designated; 2,448,500 shares issued and outstanding (liquidation preference of $6,121,250)	**5,760,374**	5,760,374
Series D convertible preferred stock, $0.001 par value; 3,057,724 shares designated, issued and outstanding (liquidation preference of $10,702,034)	**10,622,252**	10,622,252
Series E convertible preferred stock, $0.001 par value; 1,131,112 shares designated; 1,111,112 shares issued and outstanding (liquidation preference of $5,000,004)	**4,969,845**	4,969,845
Series F convertible preferred stock, $0.001 par value; 1,052,632 shares designated; 884,608 shares issued and outstanding (liquidation preference of $4,201,888)	**4,167,632**	4,167,632
Common stock, $0.001 par value; 22,000,000 shares authorized; 6,570,944 shares issued and outstanding	**6,573**	6,573
Additional paid-in capital	**1,025,650**	1,025,650
Accumulated deficit	**(23,241,016)**	(24,427,538)
Total Stockholders' Equity	**6,408,990**	5,222,468
Total Redeemable Convertible Preferred Stock and Stockholders' Equity	**15,908,990**	14,722,468
Total Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity	**$ 21,707,556**	$ 18,808,272

See accompanying notes to unaudited condensed interim financial statements.

Arthrosurface, Inc.

Condensed Statements of Operations

For the nine months ended (unaudited)		**September 30, 2019**		September 30, 2018
Net Revenues	**$**	**20,606,252**	$	19,146,317
Cost of Goods Sold		**5,407,620**		4,292,074
Gross Profit		**15,198,632**		14,854,243
Operating Expenses:				
Selling and marketing		**12,798,701**		11,847,872
General and administrative		**2,204,609**		2,183,936
Research and development		**2,134,829**		2,214,678
Total Operating Expenses		**17,138,139**		16,246,486
Loss from Operations		**(1,939,507)**		(1,392,243)
Other Income (Expense):				
Interest expense		**(48,905)**		(2,652)
Other income		-		564
Loss before Income Taxes		**(1,988,412)**		(1,394,331)
Income Tax (Benefit) Expense		**(3,174,934)**		1,449,263
Net Income (Loss)	**$**	**1,186,522**	$	(2,843,594)

See accompanying notes to unaudited condensed interim financial statements.

Arthrosurface, Inc.

Condensed Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Unaudited)

	Series B Redeemable Convertible Preferred Stock	Series A Convertible Preferred Stock	Series C Convertible Preferred Stock	Series D Convertible Preferred Stock	Series E Convertible Preferred Stock	Series F Convertible Preferred Stock	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity	Total Redeemable Convertible Preferred Stock and Stockholders' Equity
							Shares	Par Value				
Balance at December 31, 2018	$ 9,500,000	$ 3,097,680	$ 5,760,374	$ 10,622,252	$ 4,969,845	$ 4,167,632	6,570,944	$ 6,573	$ 1,025,650	$ (24,427,538)	$ 5,222,468	$14,722,468
Net income	-	-	-	-	-	-	-	-	-	1,186,522	1,186,522	1,186,522
Balance at September 30, 2019	$ 9,500,000	$ 3,097,680	$ 5,760,374	$ 10,622,252	$ 4,969,845	$ 4,167,632	6,570,944	$ 6,573	$ 1,025,650	$ (23,241,016)	$ 6,408,990	$15,908,990

See accompanying notes to unaudited condensed interim financial statements.

Arthrosurface, Inc.

Condensed Statements of Cash Flows

For the nine months ended (unaudited)		**September 30, 2019**		September 30, 2018
Cash Flows from Operating Activities:				
Net income (loss)	**$**	**1,186,522**	$	(2,843,594)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization		**683,218**		710,514
Change in reserves		**(71,058)**		(111,681)
Deferred taxes		**(3,202,314)**		1,418,984
Stock-based compensation		**-**		37,988
Increase (decrease) in cash resulting from a change in:				
Accounts receivable		**2,029,287**		2,329,499
Inventory		**(1,642,460)**		(1,346,593)
Prepaid expenses and other current assets		**427,926**		(286,968)
Accounts payable		**539,906**		(3,045)
Accounts payable - related party		**856,356**		128,733
Accrued expenses		**(467,697)**		(370,875)
Net Cash Provided by (Used in) Operating Activities		**339,686**		(337,038)
Cash Flows from Investing Activity:				
Purchases of property and equipment		**(1,123,762)**		(1,007,565)
Net Cash Used in Investing Activity		**(1,123,762)**		(1,007,565)
Cash Flows from Financing Activities:				
Proceeds from note payable, line of credit		**784,197**		767,995
Net Cash Provided by Financing Activities		**784,197**		767,995
Net Increase (Decrease) in Cash and Cash Equivalents		**121**		(576,608)
Cash and Cash Equivalents, beginning of period		**109,945**		685,901
Cash and Cash Equivalents, end of period	**$**	**110,066**	$	109,293
Supplemental Disclosures of Cash Flow Information				
Cash paid during the period for:				
Income Taxes	**$**	**27,380**	$	30,279
Interest	**$**	**48,905**	$	2,652

See accompanying notes to unaudited condensed interim financial statements.

1. Business Operations

Arthrosurface, Inc. (the "Company") was incorporated in Delaware in August 2001. The Company was formed to design, develop, manufacture, and market new surgical alternatives for the treatment of orthopedic joint disease. The Company is located primarily in Massachusetts and serves customers throughout the world.

The Company is subject to a number of risks associated with emerging, technology-oriented companies. Principal among these are the risks associated with dependence on key individuals, rapid technology change, competition from larger, more financially independent competitors, and the need for successful development and marketing of services and products.

2. Significant Accounting Policies

A summary of the significant accounting policies followed by the Company in the presentation of the accompanying financial statements is set forth below:

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The presentation of information as of December 31, 2018, is derived from audited financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts equal to estimated bad debt losses. The estimated losses are based on historical collection experience together with a review of the current status of existing receivables. The Company's allowance for doubtful accounts was $314,686 and $310,900 at September 30, 2019 and December 31, 2018, respectively, and was netted with accounts receivable in the accompanying balance sheets, along with the sales return reserve.

Inventory

Inventory is stated at the lower of cost or market. Cost is determined on a first-in, first-out ("FIFO") basis. Inventory consists principally of purchased components, the majority of which are considered finished goods. The Company provides a reserve for obsolescence equal to estimated losses resulting from obsolete inventory. The estimated losses are based upon historical product useful lives and a review of the current status of the existing inventory.

Property and Equipment

Property and equipment are stated at cost. Major renewals, additions, and betterments are charged to the property accounts, while replacements, maintenance, and repairs, which do not improve or extend the lives of the respective assets, are expensed in the year incurred.

Depreciation and Amortization

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

Assets	Life in Years
Medical instruments	3
Dies and molds	3
Computer equipment and software	3
Furniture and fixtures	7
Leasehold improvements	Life of lease
Machinery and equipment	5

Impairment of Long-lived Assets

The Company periodically evaluates its long-lived assets for events and circumstances that indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. The Company believes the future cash flows to be generated from the long-lived assets will exceed the assets' carrying value, and accordingly, the Company has not recognized any impairment losses through September 30, 2019.

Redeemable Convertible Preferred Stock

The carrying value of the Series B redeemable convertible preferred stock is increased or decreased by periodic accretion so that the carrying amount will equal the redemption amount at the redemption date. The accretion is recorded as a decrease in additional paid-in capital until the balance becomes zero, with the remainder being recorded against the accumulated deficit.

Fair Value of Financial Instruments

Certain assets and liabilities are carried at fair value under U.S. GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The carrying values of the Company’s cash and cash equivalents, accounts receivable, accounts payable, and accounts payable – related party, approximate fair value due to the immediate or short-term maturity of these financial instruments.

Revenue Recognition

The Company’s revenue consists of sales of products directly to hospitals and distributors. The Company recognizes revenue when persuasive evidence of an arrangement exists, the price is fixed and determinable, the risk of loss has transferred to the customer, the Company’s performance obligations are complete, delivery has occurred, and collection is reasonably assured. Revenue from sales to distributors is reported net of sales returns, including an estimate of future returns based on historical return rates, with a corresponding reduction to cost of goods sold. The Company’s sales return reserve was $522,571 at September 30, 2019 and December 31, 2018, and was netted with accounts receivable in the accompanying balance sheets.

Research and Development Costs

The Company accounts for its research and development costs in accordance with Accounting Standards Codification (“ASC”) 730, “Research and Development.” Accordingly, research and development costs are charged to expense as incurred.

Advertising Costs

Advertising costs are charged to operations as incurred. The advertising costs incurred were $182,046 and $121,290 for the nine months ended September 30, 2019 and 2018, respectively.

Stock-Based Compensation

The Company accounts for its stock-based compensation based on the fair value recognition provisions of ASC 718, “Compensation: Stock Compensation.” The Company is required to include an estimate of the number of awards that will be forfeited in calculating compensation costs, which is recognized over the requisite service period of the awards on a straight-line basis.

There were no options granted during the nine months ended September 30, 2019 or 2018.

Stock-based awards issued to non-employees are accounted for at their fair market value. The compensation expense that will ultimately be recognized for these options will be measured at the vesting dates of the underlying options. There were 26,295 outstanding non-employee options as of September 30, 2019 and December 31, 2018. As these options vest, the Company will be required to re-measure the fair value of these options at each reporting period prior to vesting and finally at the vesting date of the option. Changes in the estimated fair value of these non-employee options will be recognized as compensation expense or a reduction in compensation expense in the period of the change.

Total stock-based compensation expense related to employee stock options was $-0- and $37,988 for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, all stock options outstanding were fully vested.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company evaluates the realizability of its deferred tax assets and assesses the need for a valuation allowance on an ongoing basis. In evaluating the deferred tax assets, the Company considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of the deferred tax assets depends upon generating sufficient future taxable income during the periods in which the Company's temporary differences either become deductible or expire. This assessment requires significant judgement. Any future changes in the valuation allowance could result in additional income tax expense or benefit and could decrease or increase stockholders' equity, and such changes could have significant impact upon future earnings.

The Company may recognize tax benefits only in the event that a position is more likely than not to be sustained upon examination by the applicable taxing authority. There are no federal or state income tax audits in progress as of September 30, 2019, and the Company does not believe it has any uncertain tax positions. Tax years through 2016 remain open for audit by various jurisdictions.

Medical Device Tax

The Consolidated Appropriations Act of 2016, which was signed into law on December 18, 2015, temporarily repealed the medical device tax to which the Company is subject for sales of listed medical devices sold within the United States of America. The repeal was effective for the period beginning January 1, 2016, through December 31, 2017. During 2018, H.R. 195 (the "Continuing Resolution") was signed into law which extended the temporary repeal of the medical device tax through December 31, 2019. During 2019, H.R. 1865 was signed into law which permanently repealed the medical device tax.

Recent Accounting Pronouncements Affecting the Company

In May 2014, the Financial Accounting Standards Board ("FASB") issued converged guidance on recognizing revenue in contracts with customers, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The intent of the new standard is to improve financial reporting and comparability of revenue globally. The core principle of the standard is for a company to recognize revenue in a manner that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the company expects to receive in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and in certain circumstances, allowing estimates of variable consideration to be recognized before contingencies are resolved. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for nonpublic business entities for annual reporting periods beginning after December 15, 2018. The Company is currently evaluating the provisions of this standard to determine the impact on the Company's financial statements.

In February 2016, the FASB issued ASU 2016-02, which amends the ASC and creates Topic 842, *Leases*. Topic 842 will require lessees to recognize lease assets and lease liabilities for those leases classified as operating leases under previous U.S. GAAP on the balance sheet. This guidance is effective for nonpublic business entities for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Company is in the initial stages of evaluating the effect of the standard on its financial statements and will continue to evaluate. While not yet in a position to assess the full impact of the application of the new standard, the Company expects that the impact of recording the lease liabilities and the corresponding right-to-use assets will have a minimal impact on its total assets and liabilities with a minimal impact on equity.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, that changes the impairment model for most financial assets and certain other instruments. For receivables, loans, and other instruments, entities will be required to use a new forward-looking current expected credit loss model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except the losses will be recognized as allowances instead of reductions in the amortized cost of the securities. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators, and past due securities. The new provisions will be applied as a cumulative-effect adjustment to retained earnings. The Company will adopt the new standard on January 1, 2023. The Company is evaluating the impact that the new standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance related to cash flows presentation and is effective for annual reporting periods beginning after December 15, 2018. The guidance in ASU 2016-15 is generally consistent with the Company's current cash flow classifications, and adoption of this standard is not expected to have a material impact on its financial statements.

Subsequent Events

The Company has evaluated subsequent events through January 31, 2020, which is the date the financial statements were available for issuance.

3. Related-Party Transactions

The Company purchases a majority of its products from Primo Medical Group, Inc. ("PMG"), a related entity through common ownership. During the nine months ended September 30, 2019 and 2018, the Company purchased goods totaling $6,398,057 and $6,277,939 from PMG, respectively. At September 30, 2019 and December 31, 2018, the Company had amounts owed to PMG of $1,288,138 and $431,782, respectively.

4. Line of Credit

The Company has a revolving line of credit agreement with a bank with a maximum borrowing limit of $4,000,000. The line of credit is secured by all corporate assets, with the exception of intellectual property, and is subject to reporting covenants. The line of credit accrues interest at the bank's prime rate (5.0% and 5.5% as of September 30, 2019 and December 31, 2018, respectively) plus 0.25%; however, in no event shall the interest rate be less than 3.75%. At September 30, 2019 and December 31, 2018, the outstanding balance was $1,926,798 and $1,142,601, respectively. The line of credit has a maturity date of March 2, 2020.

5. Accrued Expenses

Accrued expenses consist of the following at:

		September 30, 2019		December 31, 2018
Payroll, bonus and employee benefits	**$**	**621,573**	$	715,406
Commissions		**613,898**		725,387
Royalties		**134,721**		176,040
Sales tax		**23,672**		24,985
Other liabilities		**253,973**		473,716
Total Accrued Expenses	**$**	**1,647,837**	$	2,115,534

6. Detachable Series E Preferred Stock Warrants

In August 2007, in connection with entering into a prior credit facility with a bank, the Company issued an initial 13,333 warrants for the right to purchase Series E Preferred Stock. Additional warrants were issued when the Company borrowed $3,000,000 against the facility in July 2008 at a rate of 1% multiplied by the funds borrowed divided by the warrant price at the time of each funding. As such, the Company issued the additional 6,667 warrants related to the borrowings of the facility. The exercise price per share is equal to the most recent Series E Preferred Stock share price, which at the time of borrowing was $4.50 per share. The warrants expire 10 years from issuance. The Company has expensed the fair value of the entire 20,000 warrants over the full-term of the facility. During 2017, the warrant expiration date was extended to August 2019, and during 2019 the warrant expiration date was extended to August 2020. The impact of the extension of the warrant expiration date is immaterial to the financial statements.

The fair value of the warrants was estimated using the Black-Scholes-Merton formula with the following assumptions: no dividend yield, risk free interest rate of 4.63%, a weighted average expected life of 10 years, and an estimated volatility of 46%. The discount was netted against the note payable, and the remaining costs were expensed monthly through July 2011.

7. Redeemable Convertible and Convertible Preferred Stock

At September 30, 2019, the Company had authorized 15,311,557 shares of preferred stock, of which 2,000,000 were designated Series B redeemable convertible preferred stock (“Series B Preferred Stock”), 3,311,557 were designated Series A convertible preferred stock (“Series A Preferred Stock”), 4,000,000 were designated Series C convertible preferred stock (“Series C Preferred Stock”), 3,057,724 were designated Series D convertible preferred stock (“Series D Preferred Stock”), 1,131,112 were designated Series E convertible preferred stock (“Series E Preferred Stock”), and 1,052,632 were designated Series F convertible preferred stock (“Series F Preferred Stock”).

The Series B, Series A, Series C, Series D, Series E, and Series F Preferred Stock (collectively known as “Preferred Stock”) have the following characteristics:

Voting

In general, the holders of the Preferred Stock are entitled to vote together with all other classes and series of stock of the Company as a single class on all actions to be taken by the stockholders of the Company. Each holder of the Preferred Stock is entitled to the number of votes equal to the number of shares of common stock into which each share of preferred stock is convertible at the time of such vote. The holders of the Series B Preferred Stock and common stock shall be entitled to elect one and four directors of the Company, respectively.

Dividends

Upon the declaration by the Company of dividends payable to the holders of the Company’s common stock, the holders of the Preferred Stock are entitled to dividends equal to the amount of dividends payable to the holders of the common stock on an as-if converted basis. No dividends shall be paid on the Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, and Series F Preferred Stock until any and all dividends declared on the Series B Preferred Stock are paid in full. Through September 30, 2019, no dividends have been declared or paid by the Company.

Liquidation Preference

In the event of any voluntary or involuntary sale, liquidation, dissolution, or winding-up of the Company, the holders of the shares of Series B Preferred Stock shall be paid an amount equal to $1.00 per share, plus, in the case of each share, an amount equal to any declared but unpaid dividends.

If, upon liquidation, dissolution, or winding-up of the Company, the assets of the Company are not sufficient to permit payment of the full liquidation preference of the Series B Preferred Stock, the assets will be distributed to the Series B Preferred Stock stockholders pro rata. In addition, in no event shall the amount to be distributed to the holders of the Series B Preferred Stock be less than the $2.00 per share of common stock which would be issuable upon the conversion of the Series B Preferred Stock.

Immediately after payment in full of the liquidation payment to the holders of the Series B Preferred Stock listed above, the holders of the Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, and Series F Preferred Stock shall be paid an amount equal to $1.00 per share, $2.50 per share, $3.50 per share, $4.50 per share, and $4.75 per share, respectively, plus, in the case of each share, an amount equal to any declared but unpaid dividends. If, upon liquidation, dissolution, or winding-up of the Company, the assets of the Company are not sufficient to permit payment of the full liquidation preference of the Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, and Series F Preferred Stock, the assets will be distributed to the holders of such stock pro rata. After payment of the above-mentioned amounts to the holders of the Preferred Stock, the remaining net assets of the Company shall be distributed to the holders of the Series B Preferred Stock and the holders of the common stock equally on an as-if converted basis.

Conversion

The holders of the Preferred Stock have the right, at their option at any time, to convert any such shares of Preferred Stock into fully paid and non-assessable shares of common stock on a one-for-one basis. The conversion rate is subject to anti-dilution adjustments and adjustments in the event of stock dividends, stock splits, and similar recapitalizations. If the holders of at least a majority interest in a particular series of Preferred Stock elect to convert such stock into common stock, then all of the outstanding shares in that series of preferred stock shall automatically convert into common stock. In addition, if the holders of at least a majority interest in the Series B Preferred Stock elect to convert such stock into common stock, then all of the outstanding shares of Preferred Stock automatically convert into common stock. Furthermore, all outstanding shares of Preferred Stock automatically convert into common stock, at the then-applicable conversion rate, upon consummation of a firm commitment for an underwritten public offering of the common stock yielding a per share price of at least $4.00 and gross proceeds of at least $20,000,000.

Redemption

The holders of at least a majority of the outstanding Series B Preferred Stock may, by written request, require the Company to redeem all of the outstanding Series B Preferred Stock by paying in cash a sum equal to the greater of the then fair value per share of the Series B Preferred Stock or the original purchase price of $1.00 per share plus all dividends declared and unpaid on each share. The required redemption amount of the Series B Preferred Stock outstanding as of September 30, 2019, calculated using an estimated fair value of $4.75 per share, would be $9,500,000. The fair value of $4.75 was estimated by management by referencing the last round of preferred stock financing; actual fair value may be significantly different upon an actual redemption.

8. Common Stock

As of September 30, 2019, the Company had authorized 22,000,000 shares of common stock, $0.001 par value per share. Each share of common stock entitles the holder to one vote on all matters submitted to a vote of the Company’s stockholders. Common stockholders are entitled to receive dividends, if any, as may be declared by the Board of Directors, subject to the prior rights of holders of the Preferred Stock outstanding. Upon the dissolution or liquidation of the Company, the holders of the common stock will be entitled to receive assets of the corporation available for distribution to its stockholders, subject to the preferential rights of the Preferred Stock.

The Company periodically issues shares of common stock, primarily to certain employees and other consultants who assist the Company, to promote the interests of the Company by providing long-term incentives through equity sharing ("restricted stock"). The stockholders of the restricted stock may not sell, assign, transfer, or pledge any of their shares without giving written notice to the Company. In the event that these stockholders cease to be employed by the Company, or otherwise cease to be affiliated with the Company, the Company has the right to repurchase some or all of the unvested shares at a price of $0.001 per share. Shares subject to the repurchase rights generally vest over a four-year period. As of September 30, 2019 and December 31, 2018, the Company had 3,056,815 shares that were outstanding and vested.

9. Stock Option Plan

In 2003, the Company adopted the 2002 Stock Plan (the "2002 Plan"). During 2012, the Company's Board of Directors amended the 2002 Plan to increase the shares of the Company's common stock reserved for issuance to employees, directors, and consultants to 3,600,000. During 2013, the Company's Board of Directors created the 2013 Stock Incentive Plan (the "Plan") to amend and replace the 2002 Plan. Options granted under the Plan may be incentive or non-statutory stock options. Stock purchase rights may also be granted under the Plan. Incentive stock options may only be granted to employees. The Board of Directors determines the period over which options become exercisable. Generally, stock options issued under the Plan vest over a period of four years and have contractual lives of 10 years. As of September 30, 2019 and December 31, 2018, there were 415,435 and 410,935 shares, respectively, left for issuance under the Plan.

The following table summarizes the stock options activity for the nine months ended September 30, 2019:

	Options Outstanding		Weighted Average Exercise Price
Options Outstanding at December 31, 2018	284,795	$	3.44
Cancelled	(4,500)	$	3.23
Options Outstanding at September 30, 2019	280,295	$	3.44

The following table summarizes information about stock options outstanding and exercisable under the Plan at September 30, 2019:

	Options Outstanding				Options Exercisable		
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 3.00	101,000	2.77 years	$	3.00	101,000	2.77 years	$ 3.00
$ 3.69	179,295	4.65 years	$	3.69	179,295	4.65 years	$ 3.69
	280,295	3.97 years	$	3.44	280,295	3.97 years	$ 3.44

10. Income Taxes

The provision for income taxes shown in the accompanying statements of income consisted of the following amounts:

Nine months ended September 30,		**2019**		2018
Current Income Tax:				
Federal	**$**	**-**	$	-
State		**27,380**		30,279
Total Current Income Tax		**27,380**		30,279
Deferred Income Tax:				
Federal		**(286,000)**		(293,000)
State		**30,000**		6,000
(Release of) increase in valuation allowance		**(2,946,314)**		1,705,984
Total Deferred Income Tax (Benefit) Expense		**(3,202,314)**		1,418,984
Total Income Tax (Benefit) Expense	**$**	**(3,174,934)**	$	1,449,263

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Components of the Company's deferred tax assets were as follows:

	September 30, 2019	December 31, 2018
Deferred Tax Assets:		
Net operating loss carryforwards	**$ 2,961,000**	$ 2,617,000
Research and development credits	**1,810,000**	1,774,000
Other	**363,000**	487,000
	5,134,000	4,878,000
Valuation Allowance	**(804,368)**	(3,750,682)
Net Deferred Tax Assets	**$ 4,329,632**	$ 1,127,318

The Company recorded a tax provision in the amount of $(3,174,934) and $1,449,263 for the nine months ended September 30, 2019 and 2018, respectively, resulting in an effective tax rate that significantly deviates from the Company's statutory tax rate of 25.5%. This deviation from the statutory tax rate is the result of the valuation allowance released from or placed on all deferred taxes in these periods. The valuation allowance reflects the Company's evaluation of the positive and negative evidence concerning the Company's future profitability within the relevant tax jurisdictions. During the nine months ended September 30, 2019, the valuation allowance against the deferred tax assets was lowered as a result of the permanent repeal of the medical device tax.

At September 30, 2019, the Company had federal and state net operating loss carryforwards of approximately $14,200,000. The federal net operating loss carryforwards will begin to expire in 2025, unless utilized. State net operating loss carryforwards will begin to expire in 2034. At September 30, 2019, the Company also had federal and state research and development credit carryforwards of approximately $1,459,000 and $444,000, respectively. The federal and state research and development credit carryforwards will begin to expire in 2024 and 2019, respectively.

Realization of the future tax benefits is dependent on many factors, including the Company's ability to generate taxable income within the net operating loss and research and development credit carryforward periods. Under the provisions of the Internal Revenue Code, certain substantial changes in the Company's ownership, including a sale of the Company or significant changes in ownership due to the sale of capital stock, may have limited, or may limit in the future, the amount of net operating loss carryforwards which could be used annually to offset future taxable income.

11. Retirement Plan

The Company sponsors a 401(k) plan that covers substantially all employees of the Company. The employer matches contributions on behalf of contributing participants in an amount equal to 50% of the first 6% of such participants' annual deferrals. The Company made contributions of $139,212 and $117,075 for the nine months ended September 30, 2019 and 2018, respectively.

12. Commitments

The Company has entered into agreements to lease its office space and certain office equipment under non-cancelable operating leases expiring at various dates through March 2020. The Company makes monthly payments relating to these leases in amounts ranging from $315 to $9,615. Rent expense under these operating leases for the nine months ended September 30, 2019 and 2018, was $89,066 and $90,044, respectively. The future minimum lease payments under all operating leases at September 30, 2019, is $59,577.

13. Royalty Agreements

The Company has entered into various royalty agreements with physicians who have provided consultation and product development services pertaining to the Shoulder, Uni-Knee, Patello-Femoral, Toe, and Allograft products. The Company has royalty agreements with several physicians with limited time durations, based on percentages of sales.

Royalty payment obligations are based upon various percentages of net sales pertinent to the products covered by the respective royalty arrangements. Accrued royalty expenses as of September 30, 2019 and December 31, 2018, were $134,721 and $176,040, respectively.

14. Concentrations

The Company had one major vendor accounting for approximately 49% and 47% of the Company’s purchases for the nine months ended September 30, 2019 and 2018, respectively.

The Company had one major customer accounting for approximately 14% and 13% of accounts receivable at September 30, 2019 and December 31, 2018, respectively.

The Company has a potential concentration of credit risk in that it sometimes maintains deposits with financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). The maximum deposit insurance amount is $250,000, which is applied per depositor, per insured bank for each account ownership category. As of September 30, 2019, the Company had no cash in excess of FDIC limits.

15. Subsequent Event

On January 4, 2020, the Company entered into a share purchase agreement with Anika Therapeutics, Inc. to purchase 100% of the stock of the Company for a total consideration of $100,000,000, subject to achievement of certain predetermined sales and regulatory milestones. The transaction is subject to standard closing conditions and is anticipated to close in the first quarter of 2020.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On February 3, 2020, (the "Closing Date"), Anika Therapeutics, Inc. (the "Company" or "Anika") completed the acquisition of Arthrosurface Incorporated, a Delaware corporation ("Arthrosurface") pursuant to the terms of the Agreement and Plan of Merger, dated as of January 4, 2020 (the "Arthrosurface Merger Agreement"), by and among the Company, Arthrosurface, Button Merger Sub, a Delaware corporation and a wholly-owned subsidiary of the Company ("Merger Sub") and Boston Millenia Partners Button Shareholder Representation, Inc., a Delaware corporation, solely in its capacity as the representative, agent and attorney-in-fact of the equityholders of Arthrosurface. At the closing of the merger of Merger Sub with and into Arthrosurface, Arthrosurface continued as the surviving company and became a wholly-owned subsidiary of the Company (the "Transaction").

The unaudited pro forma condensed combined financial statements are based on Anika's historical financial statements as adjusted to give effect to the Transaction. The unaudited pro forma condensed combined balance sheet as of September 30, 2019 assumes the Transaction took place on September 30, 2019. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2019 and for the year ended December 31, 2018 that combine the historical consolidated statements of operations of Anika and Arthrosurface assume the Transaction occurred on January 1, 2018.

The pro forma adjustments are based upon currently available information and certain assumptions that Anika's management believes are reasonable. The unaudited pro forma condensed combined financial information is presented for informational purposes only and is not intended to present or be indicative of what the results of operations or financial position would have been had the events actually occurred on the dates indicated, nor is it meant to be indicative of future results of operations or financial position for any future period or as of any future date. The unaudited pro forma condensed combined financial information does not give effect to the potential impact of current financial conditions, or any anticipated revenue enhancements, cost savings or operating synergies that may result from the Transaction.

The historical consolidated financial information has been adjusted in the accompanying unaudited pro forma condensed combined financial statements to give pro forma effect to events that are (1) directly attributable to the Transaction, (2) factually supportable, and (3) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results. Assumptions underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information was based on and should be read in conjunction with Anika's and Arthrosurface's historical financial statements referenced below:

- the historical unaudited condensed consolidated financial statements of Anika as of and for the nine months ended September 30, 2019, contained in its Quarterly Report on Form 10-Q for that period;
- the historical audited consolidated financial statements of Anika as of and for the year ended December 31, 2018 contained in its Annual Report on Form 10-K;
- the historical unaudited financial statements of Arthrosurface for the nine months ended September 30, 2019, which are included in this Form 8-K/A dated March 13, 2020; and
- the historical audited financial statements of Arthrosurface as of and for the year ended December 31, 2018, which are included in this Form 8-K/A dated March 13, 2020.

In the accompanying unaudited pro forma condensed combined financial statements, the Transaction has been accounted for as a business combination using the acquisition method of accounting under the provisions of Accounting Standards Codification 805 ("ASC 805"). Under ASC 805, Anika, as the accounting acquirer, records assets acquired and liabilities assumed in a business combination at their fair values as of the Closing Date. The final valuation of assets acquired and liabilities assumed related to the Transaction is expected to be completed as soon as practicable, but no later than one year after the consummation of the Transaction. The allocation of purchase consideration reflected in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted based on Anika's final valuations of the fair value of the assets acquired and liabilities assumed of Arthrosurface as of the date of the Transaction, which requires use of critical accounting estimates and significant management judgment. Although Anika believes the fair values preliminarily assigned to the assets to be acquired and liabilities to be assumed to be reflected in the unaudited pro forma condensed combined financial statements are based on reasonable estimates and assumptions using currently available data, the results of the final allocation could be materially different from the preliminary allocations.

ANIKA THERAPEUTICS, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF SEPTEMBER 30, 2019
(In thousands)

	Historical				
	Anika Therapeutics	Arthrosurface After Reclassifications (Note 4)	Pro Forma Adjustments	Notes	Pro Forma Condensed Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 103,381	$ 110	$ (62,177)	(6a), (6e)	$ 41,314
Investments	69,825	—	—		69,825
Accounts receivable, net	23,889	3,505	—		27,394
Inventories, net	25,243	11,532	4,390	(6b)	41,165
Prepaid expenses and other current assets	1,479	367	—		1,846
Total current assets	223,817	15,514	(57,787)		181,544
Property and equipment, net	51,750	1,864	—		53,614
Operating lease right-of-use assets	23,082	—	—		23,082
Other long-term assets	5,761	—	7,678	(6b)	13,439
Intangible assets, net	7,680	—	52,300	(6d)	59,980
Goodwill	7,489	—	23,512	(6c)	31,001
Total assets	$ 319,579	$ 17,378	$ 25,703		$ 362,660
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$ 2,702	$ 2,224	$ —		$ 4,926
Accrued expenses and other current liabilities	8,493	3,575	672	(6g)	12,740
Total current liabilities	11,195	5,799	672		17,666
Other long-term liabilities	372	—	—		372
Deferred tax liability	4,727	(4,330)	16,092	(6f)	16,489
Operating lease liabilities	21,603	—	—		21,603
Contingent consideration	—	—	28,376	(6a)	28,376
Total liabilities	37,897	1,469	45,140		84,506
Stockholders' equity:					
Preferred stock	—	38,118	(38,118)	(6h)	—
Common stock	143	7	(7)	(6h)	143
Additional paid-in-capital	46,482	1,025	(1,025)	(6h)	46,482
Accumulated other comprehensive loss	(6,318)	—	—		(6,318)
Retained earnings (accumulated loss)	241,375	(23,241)	19,713	(6e), (6h)	237,847
Total stockholders' equity (deficit)	281,682	15,909	(19,437)		278,154
Total liabilities and stockholders' equity	$ 319,579	$ 17,378	$ 25,703		$ 362,660

See accompanying notes to the unaudited pro forma condensed combined financial statements.

ANIKA THERAPEUTICS, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In thousands, except per share data)

	Historical				
	Anika Therapeutics	Arthrosurface After Reclassifications (Note 4)	Pro Forma Adjustments	Notes	Pro Forma Condensed Combined
Product revenue	$ 84,745	$ 20,606	$ —		$ 105,351
Licensing, milestone and contract revenue	93	—	—		93
Total revenue	84,838	20,606	—		105,444
Operating expenses:					
Cost of product revenue	20,098	5,407	6,541	(7a), (7b)	32,046
Research & development	12,581	2,135	—		14,716
Selling, general & administrative	22,713	15,004			37,717
Total operating expenses	55,392	22,546	6,541		84,479
Income (loss) from operations	29,446	(1,940)	(6,541)		20,965
Interest and other income, net	1,513	(48)	48	(7c)	1,513
Income (loss) before income taxes	30,959	(1,988)	(6,493)		22,478
Provision for (benefit from) income taxes	7,817	(3,175)	(1,624)	(7d)	3,018
Net income (loss)	$ 23,142	$ 1,187	$ (4,869)		$ 19,460
Basic net income per share:					
Net income	$ 1.65			(7e)	$ 1.38
Basic weighted average common shares outstanding	14,065				14,065
Diluted net income per share:					
Net income	$ 1.62			(7e)	$ 1.36
Diluted weighted average common shares outstanding	14,266				14,266

See accompanying notes to the unaudited pro forma condensed combined financial statements.

ANIKA THERAPEUTICS, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands, except per share data)

	Historical				
	Anika Therapeutics	Arthrosurface After Reclassifications (Note 4)	Pro Forma Adjustments	Notes	Pro Forma Condensed Combined
Product revenue	$ 105,531	$ 27,169	$ —		$ 132,700
Licensing, milestone and contract revenue	24	—	—		24
Total revenue	105,555	27,169	—		132,724
Operating expenses:					
Cost of product revenue	31,280	6,417	11,629	(7a), (7b)	49,326
Research & development	18,190	3,211	—		21,401
Selling, general & administrative	34,336	19,095			53,431
Total operating expenses	83,806	28,723	11,629		124,158
Income from operations	21,749	(1,554)	(11,629)		8,566
Interest and other income, net	1,458	(7)	8	(7c)	1,459
Income (loss) before income taxes	23,207	(1,561)	(11,621)		10,025
Provision for (benefit from) income taxes	4,485	1,514	(2,905)	(7d)	3,094
Net income (loss)	$ 18,722	$ (3,075)	$ (8,716)		$ 6,931
Basic net income per share:					
Net income	$ 1.30			(7e)	$ 0.48
Basic weighted average common shares outstanding	14,442				14,442
Diluted net income per share:					
Net income	$ 1.27			(7e)	$ 0.47
Diluted weighted average common shares outstanding	14,689				14,689

See accompanying notes to the unaudited pro forma condensed combined financial statements.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Note 1 – Description of the Transaction

On January 4, 2020, Anika entered into the Arthrosurface Merger Agreement to acquire all outstanding equity of Arthrosurface. On February 3, 2020, the acquisition was completed and Arthrosurface became a wholly-owned subsidiary of the Company. Pursuant to the terms of the Arthrosurface Merger Agreement, the Company acquired all outstanding equity of Arthrosurface for an estimated total purchase consideration of $89.6 million, which consists of $61.2 million of cash paid at closing and $28.4 million for the acquisition-date estimated fair valued future cash payment of contingent consideration.

Note 2 – Basis of presentation

The accompanying unaudited pro forma condensed combined financial information was prepared in accordance with Article 11 of SEC Regulation S-X. The historical financial statements of Anika and Arthrosurface have only been adjusted to show pro forma effects that are (i) directly attributable to the Transaction, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined balance sheet as of September 30, 2019 was prepared using the historical balance sheets of Anika and Arthrosurface as of September 30, 2019 and gives effect to the Transaction as if it occurred on September 30, 2019. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2019 and the year ended December 31, 2018 give effect to the Transaction as if it occurred on January 1, 2018 and were prepared using:

- the historical unaudited condensed consolidated financial statements of Anika as of and for the nine months ended September 30, 2019;
- the historical audited consolidated financial statements of Anika as of and for the year ended December 31, 2018;
- the historical unaudited financial statements of Arthrosurface as of and for the nine months ended September 30, 2019; and
- the historical audited financial statements of Arthrosurface as of and for the year ended December 31, 2018.

The unaudited pro forma condensed combined financial information does not include the impacts of any revenue, cost or other operating synergies that may result from the Transaction or any related restructuring costs that may be contemplated.

Note 3 – Conforming accounting policies

The unaudited pro forma condensed combined financial statements do not assume any differences in accounting policies, except as described below, as the Company is not aware of any differences that would have a material impact on the unaudited pro forma condensed combined financial statements. Further review of Arthrosurface's detailed accounting policies following the completion of the Transaction may result in the identification of additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on the financial statements of the combined company. Certain reclassifications have been made to the historical financial statements of Arthrosurface to conform to the Company's presentation, which are discussed in more detail in "Note 4 – Historical Arthrosurface."

Note 4 – Historical Arthrosurface

Certain reclassification adjustments have been made to conform Arthrosurface's financial statement presentation to that of the Anika's as indicated in the tables below.

a) The reclassification adjustments to conform Arthrosurface's balance sheet presentation to that of Anika's have no impact on net assets and are summarized below:

Item	Amount (in $ thousands)	Presentation in Arthrosurface Financial Statements	Presentation in Unaudited Pro Forma Condensed Combined Balance Sheet
Deferred tax assets	4,330	Deferred taxes	Deferred tax liability
Accounts payable, related party	1,288	Accounts payable, related party	Accounts payable
Notes payable, line of credit	1,927	Notes payable, line of credit	Accrued expenses and other current liabilities

b) The reclassification adjustments to conform Arthrosurface's statement of operations presentation to that of Anika's have no impact on net income and are summarized below:

Unaudited pro forma condensed combined statement of operations for the nine months ended September 30, 2019

Item	Amount (in $ thousands)	Presentations in Arthrosurface Financial Statements	Presentation in Unaudited Pro Forma Condensed Combined Statement of Operations
Net revenues	20,606	Net revenues	Product revenue
Selling, general & administrative	15,004	Selling and marketing & general and administrative	Selling, general & administrative
Interest expense and other income, net	(48)	Interest income, interest expense, other income, net	Interest and other income, net
Income tax expense	(3,175)	Income tax expense	Provision for (benefit from) income taxes

Unaudited pro forma condensed combined statement of operations for the year ended December 31, 2018

Item	Amount (in $ thousands)	Presentations in Arthrosurface Financial Statements	Presentation in Unaudited Pro Forma Condensed Combined Statement of Operations
Net revenues	27,169	Net revenues	Product revenue
Selling, general & administrative	19,095	Selling and marketing & general and administrative	Selling, general & administrative
Interest income, interest expense, other income, net	(7)	Interest income, interest expense, other income, net	Interest and other income, net
Income tax expense	1,514	Income tax expense	Provision for income taxes

Note 5 – Preliminary purchase price allocation

The estimated total purchase consideration for the Transaction is approximately $89.6 million, which consists of $61.2 million of cash paid at closing and $28.4 million for the acquisition-date estimated fair value of future cash payment of contingent consideration. The contingent consideration is related to the earn-out amounts pursuant to the Arthrosurface Merger Agreement and represents the estimated fair value of potential future payments based on the estimated probability of achieving contingent regulatory approval milestones and certain net sales levels from 2020 through 2022. The following is a preliminary estimate of fair valued assets acquired and liabilities assumed of Arthrosurface at September 30, 2019, reconciled to estimated total purchase consideration (in thousands):

Cash and cash equivalents	$	110
Accounts receivable		3,505
Inventories		15,922
Prepaid expenses and other current assets		367
Property and equipment		1,864
Other long-term assets		7,678
Intangible assets		52,300
Accounts payable		(2,224)
Accrued expenses and other liabilities		(1,648)
Deferred tax liability		(11,762)
Goodwill		23,512
Total purchase consideration	$	89,624

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the unaudited pro forma condensed combined balance sheet and condensed combined statement of operations. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments.

Note 6 – Pro forma adjustments to the unaudited pro forma condensed combined balance sheet as of September 30, 2019

a) *Estimated purchase consideration*

Reflects $61.2 million of cash paid at closing and the acquisition-date estimated fair value of contingent consideration of $28.4 million. The estimated total purchase consideration includes payments of $1.1 million for Arthrosurface costs related to the Transaction and bonus payments to certain Arthrosurface employees of $1.0 million. The cash payment is reflected as reduction to cash in the unaudited pro forma condensed combined balance sheet. The estimated fair value of contingent consideration is recorded as an increase to the transferred consideration.

The following is a summary of consideration transferred to affect the Transaction (in thousands):

Cash paid at closing	$	61,248
Estimated fair value of contingent consideration		28,376
Estimated total purchase consideration	$	89,624

b) *Inventory*

Reflects the adjustment to record inventories at their preliminary estimated fair value of $23.6 million and to eliminate the book value of historical inventory of $11.5 million. The estimated fair value consists of $15.9 million of short term inventory which is recorded in inventory and $7.7 million of long term inventory which is recorded in other long-term assets. The fair value estimate of inventory is preliminary and is determined based on the estimated selling price less the sum of (i) costs of disposal, and (ii) a profit allowance for the completion and selling effort of the buyer. The final fair value determination of inventory may differ from this preliminary determination, and such differences could be material.

c) *Goodwill*

Reflects the adjustment to goodwill arising from the Transaction of $23.5 million. Goodwill is calculated as the difference between the estimated total purchase consideration and the estimated fair values assigned to the assets acquired and liabilities assumed.

Estimated total purchase consideration	$	89,624
Less: Estimated fair value of net assets acquired		66,112
Total estimated goodwill	$	23,512

The goodwill is attributable to the workforce of the business and the value of future technologies expected to arise after the merger. Goodwill will not be amortized and is not expected to be deductible for income tax purposes. The fair value estimate for goodwill is preliminary. The final fair value determination of goodwill may differ from this preliminary determination once Anika's valuation of the fair value of tangible and intangible assets acquired and liabilities assumed has been completed, and such differences could be material.

d) *Intangible assets*

Reflects adjustment to record intangible assets at the estimated fair value of $52.3 million. The estimated fair value of identifiable intangible assets includes $40.9 million of developed technology, $8.0 million of customer relationships, and $3.4 million of trade names. The preliminary estimated useful life of these intangible assets is 15 years.

The estimated fair value of the acquired intangible assets is based on a preliminary valuation and is determined using the multi-period excess earnings method, which is a variation of the income approach, which is a valuation technique that provides an estimate of the fair value of an asset based on the principle that the value of an intangible asset is equal to the present value of the incremental after-tax cash flows attributable to the asset, after taking charges for the use of other assets employed by the business. Key estimates and assumptions used in this model are projected revenues and expenses related to the asset, estimated contributory asset charges, and a risk-adjusted discount rate used to calculate the present value of the future expected cash inflows from the asset. The fair value estimate for identified intangible assets is preliminary. The final fair value determination of the identified intangible assets may differ from this preliminary determination, and such differences could be material.

e) *Transaction costs*

Reflects the adjustment to record $3.5 million Anika costs related to the Transaction that were not previously recorded in the historical financial statements as of September 30, 2019. Of these costs, $0.9 million were paid and $2.6 million were accrued at closing. These costs are recorded as a reduction in retained earnings in the unaudited pro forma condensed combined balance sheet. Additionally, since there is no continuing impact, these costs are not included in the unaudited pro forma condensed combined statement of operations.

f) *Deferred taxes*

Reflects the preliminary estimate of deferred income taxes resulting from the fair value adjustments for identifiable intangible assets and inventory. This estimate was determined based on the fair value adjustments at Anika's estimated blended U.S. federal and state tax rate of 25%.

g) *Debt*

Reflects the adjustment to settle Arthrosurface's debt of $1.9 million at September 30, 2019 in accordance with the Arthrosurface Merger Agreement. The adjustment is reflected as a decrease in accrued expenses and other current liabilities in the unaudited pro forma condensed combined balance sheet.

h) *Stockholders' equity*

Reflects the elimination of Arthrosurface's historical preferred stock, common stock, additional paid-in-capital and retained earnings which was eliminated upon completion of the Transaction.

Note 7 – Pro forma adjustments to the unaudited pro forma condensed combined statements of operations

a) *Amortization expense*

Reflects the adjustment to record amortization expense based on the straight-line method of $2.6 million and $3.5 million for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively. The amortization expense is related to the fair value of the acquired intangible assets with a preliminary estimated useful life of 15 years.

b) *Recognition of inventory step-up*

Reflect the adjustment to cost of product revenue of $3.9 million and $8.1 million for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively, based on the preliminary fair value inventory adjustment and the anticipated inventory turnover.

c) *Elimination of interest expense and interest income*

Reflects the adjustment for the elimination of historical Arthrosurface's interest expense of $48 thousand for the nine months ended September 30, 2019 and $8 thousand for the year ended December 31, 2018 as the related borrowings were settled as part of the Transaction in accordance with the Arthrosurface Merger Agreement.

d) *Income tax expense (benefit)*

Reflects the tax effect of the pro forma adjustments using Anika's blended U.S. federal and state tax rate of 25% for the nine months ended September 30, 2019 and the year ended December 31, 2018. The effective tax rate of the combined company could be materially different from the rate presented in this unaudited pro forma condensed combined financial information.

e) *Earnings per share*

The unaudited pro forma condensed combined basic and diluted earnings per share calculations are based on the unaudited pro forma condensed combined net income of the combined company and the weighted average outstanding shares of Anika for the nine months ended September 30, 2019 and for the year ended December 31, 2018.

Note 8 – Items not included in the unaudited pro forma condensed combined financial statements

The unaudited pro forma condensed combined statements of operations do not include the impacts of any revenue, cost or other operating synergies that may result from the Transaction or any related restructuring costs that may be contemplated.

Anika adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification, *Leases*, (ASC 842) effective January 1, 2019. The impact of ASC 842 on Arthrosurface is not presented as the impact was immaterial to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined statements of operations do not include any non-recurring transaction costs incurred by Anika or Arthrosurface after September 30, 2019 as those costs are not expected to have a continuing impact on the operations of the combined business.

The unaudited pro forma condensed combined financial statements do not reflect possible limitations to the combined company's net operating loss carryforwards ("NOLs") as a result of an "ownership change" under Section 382 of the Internal Revenue Code of 1986. As a result of the Transaction, the combined company may be subject to annual limitations on its ability to utilize pre-change NOLs to offset future taxable income. The amount of the annual limitation is determined based on the value of Anika immediately prior to the ownership change.