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

FORM 10-Q

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

For the quarterly period ended March 31, 2023

or

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

For the transition period from ________ to________

Commission File Number: 001-39037

SMILEDIRECTCLUB, INC.
(Exact name of registrant as specified in its charter)

Delaware	**83-4505317**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
414 Union Street **Nashville, TN** (Address of principal executive offices)	**37219** (Zip Code)

(800) 342-0462
(Registrant’s telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, par value $0.0001 per share	SDC	The NASDAQ Stock Market LLC

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

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

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

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

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

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

The registrant has the following number of shares outstanding of each of the registrant’s classes of common stock as of May 4, 2023:
Class A Common Stock: 132,446,148
Class B Common Stock: 268,623,501

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q of SmileDirectClub, Inc. ("SmileDirectClub," "Company," "us," "we," or "our") contains forward-looking statements. Any statements about our expectations, beliefs, plans, predictions, forecasts, objectives, assumptions, or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as "anticipates," "believes," "can," "could," "may," "predicts," "potential," "should," "will," "estimate," "plans," "projects," "continuing," "ongoing," "expects," "intends," and similar words or phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these statements are not guarantees of future performance and involve risks and uncertainties which are subject to change based on various important factors, some of which are beyond our control. For more information regarding these risks and uncertainties as well as certain additional risks that we face, refer to "*Risk Factors*" as well as the factors more fully described in "*Management's Discussion and Analysis of Financial Conditions and Results of Operations*" in this report and in our Annual Report on Form 10-K for the year ended December 31, 2022. Among the factors that could cause our financial performance to differ materially from that suggested by the forward-looking statements are:

- our ability to effectively manage our core growth initiatives;
- our ability to effectively execute our business strategies, implement new initiatives, and improve efficiency;
- our sales and marketing efforts;
- our manufacturing capacity and performance and our ability to reduce the per unit production cost of our clear aligners;
- our ability to obtain and maintain regulatory approvals for any new or, enhanced or existing products;
- our estimates regarding revenues, expenses, capital requirements, and needs for additional financing;
- our ability to effectively market and sell, consumer acceptance of, and competition for our clear aligners in new markets;
- our relationships with retail partners and insurance carrier providers;
- our research, development, commercialization, and other activities and projected expenditures;
- changes or errors in the methodologies, models, assumptions, and estimates we use to prepare our financial statements, make business decisions, and manage risks;
- our current business model is dependent, in part, on current laws and regulations governing remote healthcare and the practice of dentistry, and changes in those laws, regulations, or interpretations that are inconsistent with our current business model could have a material adverse effect on our business;
- our relationships with our freight carriers, suppliers, and other vendors;
- our ability to maintain the security of our operating systems and infrastructure (e.g., against cyberattacks);
- the adequacy of our risk management framework;
- our cash needs, including with respect to our debt services requirements, and ability to raise additional capital, if needed;
- our ability to remain in compliance with our debt covenants;

- our intellectual property position;
- our exposure to claims and legal proceedings;
- our ability to manage the COVID-19 pandemic, including the protracted duration of COVID-19 and the potential resurgence of COVID-19 infections, through voluntary and regulatory containment measures and the related impacts on our business;
- our ability to gauge the impact of COVID-19 and related potential disruptions to the operations of our suppliers, freight carriers and retail partners, including social and economic constraints, tariffs and trade barriers, facilities closures, labor instability, and capacity reduction;
- our ability to manage macroeconomic pressures and increasing inflation on our core customer; and
- other factors and assumptions described in this Quarterly Report on Form 10-Q.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements. Therefore, we caution not to place undue reliance on any forward-looking information or statements. The effect of these factors is difficult to predict. Factors other than these also could adversely affect our results, and the reader should not consider these factors to be a complete set of all potential risks or uncertainties. New factors emerge from time to time, and management cannot assess the impact of any such factor on our business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Any forward-looking statements only speak as of the date of this document, and we undertake no obligation to update any forward-looking information or statements, whether written or oral, to reflect any change, except as required by law. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the Securities and Exchange Commission ("SEC") as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

SmileDirectClub, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except share and per share amounts)

	March 31, 2023	December 31, 2022
ASSETS		
Cash	$ 59,125	$ 93,120
Accounts receivable, net	135,708	143,082
Inventories	40,031	44,387
Prepaid and other current assets	16,725	16,830
Total current assets	251,589	297,419
Restricted cash	27,129	25,278
Accounts receivable, net, non-current	47,809	45,168
Property, plant and equipment, net	181,739	190,087
Operating lease right-of-use assets	18,826	21,141
Other assets	18,514	17,970
Total assets	$ 545,606	$ 597,063
LIABILITIES AND EQUITY (DEFICIT)		
Accounts payable	$ 34,880	$ 30,513
Accrued liabilities	53,815	65,937
Deferred revenue	16,837	13,646
Other current liabilities	6,711	6,704
Total current liabilities	112,243	116,800
Long-term debt, net of current portion	860,197	849,379
Operating lease liabilities, net of current portion	14,618	16,082
Other long-term liabilities	421	—
Total liabilities	987,479	982,261
Equity (Deficit)		
Class A common stock, par value $0.0001 and 130,974,872 shares issued and outstanding at March 31, 2023 and 124,785,562 shares issued and outstanding at December 31, 2022	13	12
Class B common stock, par value $0.0001 and 268,623,501 shares issued and outstanding at March 31, 2023 and 268,823,501 shares issued and outstanding at December 31, 2022	27	27
Additional paid-in-capital	483,511	475,034
Accumulated other comprehensive income	529	430
Accumulated deficit	(403,144)	(381,725)
Noncontrolling interest	(540,429)	(496,596)
Warrants	17,620	17,620
Total equity (deficit)	(441,873)	(385,198)
Total liabilities and equity (deficit)	$ 545,606	$ 597,063

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

SmileDirectClub, Inc.
Condensed Consolidated Statements of Operations (Unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2023	**2022**
Revenue, net	$ 112,835	$ 142,512
Financing revenue	6,942	9,134
Total revenues	119,777	151,646
Cost of revenues	32,892	43,066
Gross profit	86,885	108,580
Marketing and selling expenses	72,201	96,711
General and administrative expenses	65,164	70,793
Lease abandonment and impairment of long-lived assets	947	1,232
Restructuring and other related costs	7,754	11,532
Loss from operations	(59,181)	(71,688)
Interest expense	7,709	1,556
Other expense (income)	(1,484)	1,423
Net loss before provision for income tax expense (benefit)	(65,406)	(74,667)
Provision for income tax expense (benefit)	321	(1,463)
Net loss	(65,727)	(73,204)
Net loss attributable to noncontrolling interest	(44,308)	(50,623)
Net loss attributable to SmileDirectClub, Inc.	$ (21,419)	$ (22,581)
Earnings (loss) per share of Class A common stock:		
Basic	$ (0.17)	$ (0.19)
Diluted	$ (0.16)	$ (0.19)
Weighted average shares outstanding:		
Basic	129,769,504	120,191,790
Diluted	398,588,561	389,297,928

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

SmileDirectClub, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)

	Three Months Ended March 31,	
	2023	**2022**
Net loss	$ (65,727)	$ (73,204)
Other comprehensive income:		
Foreign currency translation adjustment	304	516
Comprehensive loss	(65,423)	(72,688)
Comprehensive loss attributable to noncontrolling interests	(44,103)	(50,267)
Comprehensive loss attributable to SmileDirectClub, Inc.	$ (21,320)	$ (22,421)

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

SmileDirectClub, Inc.
Condensed Consolidated Statements of Changes in Equity (Deficit)
(in thousands, except share amounts)

	SmileDirectClub, Inc. Stockholders' Equity (Deficit)									
	Class A Shares	**Class B Shares**	**Class A Amount**	**Class B Amount**	**Additional Paid-in Capital**	**Warrants**	**Accumulated Deficit**	**Noncontrolling Interest**	**Accumulated Other Comprehensive Income**	**Total**
Balance at December 31, 2021	119,280,781	269,243,501	$ 12	$ 27	$ 448,867	$ 17,620	$ (295,321)	$ (305,852)	$ 293	$ (134,354)
Net loss	—	—	—	—	—	—	(22,581)	(50,623)	—	(73,204)
Issuance of Class A shares in connection with equity-based awards	902,439	—	—	—	—	—	—	—	—	—
Exchange of Class B common stock for Class A common stock	250,000	(250,000)	—	—	(219)	—	—	219	—	—
Equity-based compensation	—	—	—	—	5,306	—	—	—	—	5,306
Equity-based payments	—	—	—	—	(1,847)	—	—	—	—	(1,847)
Foreign currency translation adjustment	—	—	—	—	—	—	—	356	160	516
Other	—	—	—	—	46	—	—	—	—	46
Balance at March 31, 2022	120,433,220	268,993,501	$ 12	$ 27	$ 452,153	$ 17,620	$ (317,902)	$ (355,900)	$ 453	$ (203,537)

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

SmileDirectClub, Inc.
Condensed Consolidated Statements of Changes in Equity (Deficit)
(in thousands, except share amounts)

	SmileDirectClub, Inc. Stockholders' Equity (Deficit)									
	Class A Shares	Class B Shares	Class A Amount	Class B Amount	Additional Paid-in Capital	Warrants	Accumulated Deficit	Noncontrolling Interest	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2022	124,785,562	268,823,501	$ 12	$ 27	$ 475,034	$ 17,620	$ (381,725)	$ (496,596)	$ 430	$ (385,198)
Net loss	—	—	—	—	—	—	(21,419)	(44,308)	—	(65,727)
Issuance of Class A shares in connection with equity-based awards	4,777,511	—	1	—	(1)	—	—	—	—	—
Issuance of Class A shares under public offerings, net of issuance costs	1,211,799	—	—	—	798	—	—	—	—	798
Exchange of Class B common stock for Class A common stock	200,000	(200,000)	—	—	(270)	—	—	270	—	—
Equity-based compensation	—	—	—	—	6,630	—	—	—	—	6,630
Equity-based payments	—	—	—	—	1,346	—	—	—	—	1,346
Foreign currency translation adjustment	—	—	—	—	—	—	—	205	99	304
Other	—	—	—	—	(26)	—	—	—	—	(26)
Balance at March 31, 2023	130,974,872	268,623,501	$ 13	$ 27	$ 483,511	$ 17,620	$ (403,144)	$ (540,429)	$ 529	$ (441,873)

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

SmileDirectClub, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2023	**2022**
Operating Activities		
Net loss	$ (65,727)	$ (73,204)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,873	18,916
Deferred loan cost amortization	1,591	1,078
Equity-based compensation	6,630	5,306
Paid in kind interest expense	1,227	—
Asset impairment and related charges	1,015	1,367
Other non-cash operating activities	1,560	1,079
Changes in operating assets and liabilities:		
Accounts receivable	4,733	3,241
Inventories	4,288	1,785
Prepaid and other current assets	(498)	(7,258)
Accounts payable	4,750	(2,137)
Accrued liabilities	(11,210)	(11,012)
Deferred revenue	3,191	(425)
Net cash used in operating activities	(32,577)	(61,264)
Investing Activities		
Purchases of property, plant and equipment	(8,041)	(15,118)
Net cash used in investing activities	(8,041)	(15,118)
Financing Activities		
Repurchase of Class A shares to cover employee tax withholdings	(638)	(1,847)
Proceeds from sale of Class A common stock under public offerings	798	—
Borrowings of long-term debt	8,000	—
Payments of finance leases	—	(2,404)
Other	278	562
Net cash provided by (used in) financing activities	8,438	(3,689)
Effect of exchange rates change on cash flow activities	36	(42)
Decrease in cash and restricted cash	(32,144)	(80,113)
Cash and restricted cash at beginning of period	118,398	224,860
Cash and restricted cash at end of period	$ 86,254	$ 144,747

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

Note 1—Organization and Basis of Presentation
Organization

SmileDirectClub, Inc. was formed on April 11, 2019 with no operating assets or operations as a Delaware corporation for the purpose of facilitating an initial public offering and other related transactions in order to carry on the business of SDC Financial LLC and its subsidiaries. Unless otherwise indicated or the context otherwise requires, references to "we," "us," "our," the "Company," "SmileDirectClub," and similar references refer to SmileDirectClub, Inc. and its consolidated subsidiaries, including SDC Financial LLC and its subsidiaries. "SDC Financial" refers to SDC Financial LLC and "SDC Inc." refers to SmileDirectClub, Inc. The Company is engaged by its network of doctors to provide a suite of non-clinical administrative support services, including access to and use of its SmileCheck platform, as a Dental Support Organization. For purposes of these notes to condensed consolidated financial statements (unaudited), the Company's affiliated network of dentists and orthodontists is included in the definition of "we," "us," "our," and the "Company" as it relates to any clinical aspect of the member's treatment. All of the Company's manufacturing operations are directly or indirectly conducted by Access Dental Lab, LLC ("Access Dental"), one of its operating subsidiaries.

SmileDirectClub is an oral care company and creator of the first MedTech platform for teeth straightening. Through the Company's cutting-edge teledentistry technology and vertically integrated model, it is revolutionizing the oral care industry, from clear aligner therapy to its affordable, premium oral care product line. SmileDirectClub's mission is to democratize access to a smile each and every person loves by making it affordable and convenient for everyone. SmileDirectClub is headquartered in Nashville, Tennessee and operates in the U.S., Costa Rica, Puerto Rico, Canada, Australia, United Kingdom and Ireland.

SDC Inc. is a holding company. Its sole material asset is its equity interest in SDC Financial which, through its direct and indirect subsidiaries, conducts all of the Company's operations. SDC Financial is a Delaware limited liability company and wholly owns SmileDirectClub, LLC ("SDC LLC") (a Tennessee limited liability company) and Access Dental Labs (a Tennessee limited liability company). Because SDC Inc. is the managing member of SDC Financial, SDC Inc. indirectly operates and controls all of the business and affairs of SDC Financial and its subsidiaries.

Initial Public Offering

On September 16, 2019, SDC Inc. completed an initial public offering ("IPO") of 58,537,000 shares of its Class A common stock at a public offering price of $23.00 per share. SDC Inc. received $1,286 million in proceeds, net of underwriting discounts and commissions. SDC Inc. used substantially all of the net proceeds after expenses to purchase newly-issued membership interest units from SDC Financial.

Reorganization Transactions

In connection with the IPO, the Company completed the following transactions (the "Reorganization Transactions"):

- the formation of SDC Inc. as a Delaware corporation to function as the ultimate parent of SmileDirectClub and a publicly traded entity;

- SDC Inc.'s acquisition of the pre-IPO membership interest units in SDC Financial ("Pre-IPO Units") held by certain pre-IPO investors that are taxable as corporations for U.S. federal income tax purposes ("Blockers"), pursuant to a series of mergers (the "Blocker Mergers") of the Blockers with wholly owned subsidiaries of SDC Inc., and the issuance by SDC Inc. to the equityholders of the Blockers shares of Class A common stock as consideration in the Blocker Mergers;

- the amendment and restatement of the SDC Financial's limited liability company operating agreement (the "SDC Financial LLC Agreement") to, among other things, modify the capital structure of SDC Financial by replacing the different classes of Pre-IPO Units (including restricted Pre-IPO Units held by certain employees) with a single new class of membership interests of SDC Financial (“LLC Units”);

- the issuance to each of the pre-IPO investors previously holding Pre-IPO Units (including restricted Pre-IPO Units) of a number of shares of SDC Inc. Class B common stock equal to the number of LLC Units held by it;
- the issuance to certain employees of cash and shares of Class A common stock pursuant to their Incentive Bonus Agreements (“IBAs”); and
- the equitable adjustment, pursuant to their terms, of outstanding warrants to purchase Pre-IPO Units held by two service providers into warrants to acquire LLC Units (together with an equal number of shares of SDC Inc.’s Class B common stock).

Following the completion of the Reorganization Transactions and the IPO, SDC Inc. owned 26.9% of SDC Financial. Holders (other than SDC Inc.) of LLC Units following the consummation of the Reorganization Transactions and the IPO (“Continuing LLC Members”) owned the remaining 73.1% of SDC Financial.

SDC Inc. is the sole managing member of SDC Financial and, although SDC Inc. has a minority economic interest in SDC Financial, it has the sole voting power in, and controls the management of, SDC Financial. Accordingly, SDC Inc. consolidates the financial results of SDC Financial and reports a noncontrolling interest in its interim condensed consolidated financial statements. As the Reorganization Transactions are considered transactions between entities under common control, the financial statements for periods prior to the IPO and Reorganization Transactions have been adjusted to combine the previously separate entities for presentation purposes.

In connection with the Reorganization Transactions and the IPO, the Company entered into a Tax Receivable Agreement (the “Tax Receivable Agreement”) with the Continuing LLC Members, pursuant to which SDC Inc. agreed to pay the Continuing LLC Members 85% of the amount of cash tax savings, if any, in U.S. federal, state, and local income tax or franchise tax that SDC Inc. actually realizes as a result of (a) the increases in tax basis attributable to exchanges of LLC Units by Continuing LLC Members and (b) tax benefits related to imputed interest deemed to be paid by SDC Inc. as a result of the Tax Receivable Agreement.

Basis of Presentation and Consolidation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the SEC and, in the opinion of management, reflect all normal recurring adjustments necessary for a fair presentation of results for the unaudited interim periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full fiscal year. All intercompany balances and transactions are eliminated in consolidation.

The interim condensed consolidated financial statements include the accounts of SDC Inc., which consolidates SDC Financial and its wholly-owned subsidiaries, as well as accounts of contractually affiliated professional corporations (“PCs”) managed by the Company.

The interim condensed consolidated financial statements include the accounts of variable interest entities in which the Company is the primary beneficiary under the provisions of Accounting Standards Codification (‘‘ASC”) Topic 810, ‘‘*Consolidation.*” The variable interest entities include 58 dentist owned PCs at March 31, 2023 and at December 31, 2022. The Company is a dental service organization and does not engage in the practice of dentistry. All clinical services are provided by dentists and orthodontists who are engaged as independent contractors or otherwise engaged by the dentist-owned PCs. The Company contracts with the PCs and dentists and orthodontists through a suite of agreements, including but not limited to, management services agreements, supply agreements, and licensing agreements, pursuant to which the

Company provides the administrative, non-clinical management services to the PCs and independent contractors. The Company has the contractual right to manage the activities that most significantly impact the variable interest entities' economic performance through these agreements without engaging in the corporate practice of dentistry. Additionally, the Company would absorb substantially all of the expected losses of these entities should they occur. The accompanying interim condensed consolidated statements of operations reflect the revenue earned and the expenses incurred by the PCs.

COVID-19 Pandemic and Restructuring of Operations

Although increasing rates of vaccinations across the globe and decreasing governmental restrictions have begun to lessen the impact of COVID-19, the Company continues to navigate the uncertain and unprecedented economic and operating conditions resulting from COVID-19 and its protracted duration.

During the quarter ended March 31, 2023, the Company incurred one-time charges of approximately $8,701, primarily associated with asset impairments and employee-related costs including severance payments. In 2023, the Company announced suspension of operations in France in addition to previously announced suspension of operations in Mexico, Spain, Germany, Netherlands, Austria, Hong Kong, Singapore and New Zealand in 2022. The Company will continue to operate in the United States, Canada, United Kingdom, Ireland, and Australia, and will scale its presence in each country. With these changes, the Company implemented a reduction in workforce to right-size its operating structure so it is to the countries in which the Company will continue to operate and focus. The Company continues to evaluate its SmileShops and other properties to determine if it will further rationalize its footprint to better align with marketplace demand, including the direct and indirect effects of the COVID-19 pandemic. Additional future restructuring charges may result from the Company's real estate repositioning and optimization initiatives.

Note 2—Summary of Significant Accounting Policies

Management Use of Estimates

The preparation of the interim condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that impact the reported amounts. On an ongoing basis, the Company evaluates its estimates, including those related to the fair values of financial instruments, useful lives of property, plant and equipment, revenue recognition, equity-based compensation, long-lived assets, and contingent liabilities, among others. In connection with its 2020 credit facility with HPS Investment Partners, the Company issued warrants to certain affiliates of HPS Investment Partners. The warrants were recorded at fair value at the time of issuance within equity on the interim condensed consolidated balance sheet using the Black-Scholes option pricing model (see Note 9). Each of these estimates varies in regard to the level of judgment involved and its potential impact on the Company's financial results. Estimates are considered critical either when a different estimate could have reasonably been used, or where changes in the estimate are reasonably likely to occur from period to period, and such use or change would materially impact the Company's financial condition, results of operations, or cash flows. Actual results could differ from those estimates.

Revenue Recognition

The Company's revenues are derived primarily from sales of aligners, impression kits, whitening gel, and retainers, and interest earned through its SmilePay financing program. Revenue is recorded for all customers based on the amount that is expected to be collected, which considers implicit price concessions, discounts, and cancellations and refunds from customer returns.

The Company identifies a performance obligation as distinct if both of the following criteria are met: the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. Determining the standalone selling price ("SSP") and allocation of consideration from a contract to the individual performance obligations, and the appropriate timing of revenue recognition, is the result of significant qualitative and quantitative judgments. Management considers a variety of factors such as historical sales, usage rates (the number of times a customer is expected to order additional aligners), costs, and expected margin, which may vary over time depending upon the unique facts and circumstances related to each performance obligation, in making these estimates. Further, the Company's process for estimating usage rates requires judgment and evaluation of inputs, including historical data and forecasted usages. Changes in the allocation of the SSP between performance obligations will not affect the amount of total revenues recognized for a particular contract. The Company uses the expected cost plus a margin approach to determine the SSP for performance obligations, and discounts are allocated to each performance obligation based on the relative SSP. However, any material changes in the allocation of the SSP could impact the timing of revenue recognition, which may have a material effect on the Company's financial position and result of operations as the contract consideration is allocated to each performance obligation, delivered or undelivered, at the inception of the contract based on the SSP of each distinct performance obligation.

The Company estimates the amount expected to be collected based upon management's assessment of historical write-offs, expected net collections including implicit price concessions, and cancellations and refunds from customer returns, business and economic conditions, and other collection indicators. Management relies on the results of detailed reviews of historical write-offs, cancellations, returns, and collections as a primary source of information in estimating the amount of contract consideration expected to be collected. Uncollectible receivables are written-off in the period management believes it has exhausted its ability to collect payment from the customer. The Company believes its analysis provides reasonable estimates of its revenues and valuations of its accounts receivable.

A description of the revenue recognition for each product sold by the Company is detailed below.

Aligners and Impression Kits: The Company enters into contracts with customers for aligner sales that involve multiple future performance obligations. The Company determined that aligner sales comprise the following distinct performance obligations: initial aligners, touch-up aligners, and retainers for international sales only which can occur at any time throughout the treatment plan (which is typically between five months to ten months) upon the direction of and prescription from the treating dentist or orthodontist.

(in thousands, except share/unit data and per share/unit amounts)

The Company allocates revenues for each performance obligation based on its SSP and recognizes the revenues as control of the performance obligation is transferred upon shipment of the aligners. The Company recognizes aligner revenue on amounts expected to be collected during the course of the treatment plan.

The Company bills its customers either upfront for the full cost of aligners or monthly through its SmilePay financing program, which involves a down payment and a fixed amount per month for up to 26 months. The Company’s accounts receivable related to the SmilePay financing program are reported at the amount expected to be collected on the interim condensed consolidated balance sheets, which considers implicit price concessions. Financing revenue from its accounts receivable is recognized based on the contractual market interest rate with the customer, net of implicit price concessions. There are no fees or origination costs included in accounts receivable.

The Company sells doctor-prescribed impression kits to its customers as an alternative to an in-person visit at one of its SmileShops, popup locations, or Partner Network locations, comprised of affiliated dentist and orthodontist offices, where the customer receives a free oral digital imaging of their teeth. The Company combines the sales of its impression kits with aligner sales and recognizes the revenues as control of the performance obligation is transferred upon shipment of the aligners. The Company estimates the amount of impression kit sales that do not result in an aligner therapy treatment plan and recognizes such revenue when aligner conversion becomes remote.

Retainers and Other Products: The Company sells retainers and other products (such as whitening gel and tooth brushes) to customers, which can be purchased on the Company’s website or certain retail outlets. The sales of these products are independent and separate from the customer’s decision to purchase aligner therapy for domestic sales. The Company determined that the transfer of control for these performance obligations occurs as the title of such products passes to the customer or retail partner.

The following table summarizes revenue recognized for each product sold by the Company:

	Three Months Ended March 31,	
	2023	**2022**
Aligner revenue, net	$ 94,442	$ 118,928
Financing revenue, net	6,942	9,134
Retainers and other products revenue	18,393	23,584
Total revenue	$ 119,777	$ 151,646
Implicit price concessions, cancellations, and refunds included in total revenue	$ 24,275	$ 28,409

Deferred Revenue: Deferred revenue represents the Company’s contract liability for performance obligations associated with sales of aligners. During the three months ended March 31, 2023 and 2022, the Company recognized $119,777 and $151,646 of revenue, respectively. Of the Company’s revenues recognized during the three months ended March 31, 2023 and 2022, $5,331 and $10,244 was previously included in deferred revenue on the balance sheets as of December 31, 2022 and 2021, respectively.

Allowance for credit losses and other revenue adjustments: The Company records a provision to maintain an allowance for credit losses and other revenue adjustments that result from the failure or inability of its members or other partners to make required payments deemed collectible when the product was delivered, or customer returns resulting in cancellations or refunds. When determining the allowances for member receivables, the Company considers the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends and general economic factors. The Company also considers future economic trends in its estimation of expected credit losses over the lifetime of the asset.

(in thousands, except share/unit data and per share/unit amounts)

Credit risks are assessed based on historical write-offs, cancellations, and adjustments, net of recoveries, as well as an analysis of the aged accounts receivable balances. Accounts receivable may be fully reserved for when specific collection issues are known to exist, such as a history of missed scheduled payments and customer service or production issues.

Activity in the allowance for credit losses and other revenue adjustments for the quarter ended March 31, 2023 was as follows:

		Accounts Receivabl Allowance for Cred Losses
Balance at December 31, 2022	$	36,78
Current period provision for expected credit losses and other revenue adjustments		24,27
Write-offs and other adjustments charged against the allowance, net of recoveries		(17,69
Refunds paid		(1,77
Balance at March 31, 2023	$	41,59

As of March 31, 2023 and December 31, 2022, $37,136 and $32,562 related to implicit price concessions and cancellation and adjustment reserves and is included in net receivables, respectively, and $4,454 and $4,224 related to refund reserves and is included in current liabilities in the accompanying consolidated balance sheets, respectively.

Shipping and Handling Costs

Shipping and handling charges are recorded in cost of revenues in the interim condensed consolidated statements of operations upon shipment. The Company incurred $4,972 and $5,659 in outsourced shipping expenses for the three months ended March 31, 2023 and 2022, respectively.

Cost of Revenues

Cost of revenues includes the total cost of products produced and sold. Such costs include direct materials, direct labor, overhead costs (occupancy costs, indirect labor, and depreciation), fees retained by doctors, freight and duty expenses associated with moving materials from vendors to the Company’s facilities and from its facilities to the customers, and adjustments for shrinkage (physical inventory losses), lower of cost or net realizable value, slow moving product and excess inventory quantities.

Marketing and Selling Expenses

Marketing and selling expenses include direct online and offline marketing and advertising costs, costs associated with intraoral imaging services, selling labor, and occupancy costs of SmileShop locations. All marketing and selling expenses, including advertising, are expensed as incurred. For the three months ended March 31, 2023 and 2022, the Company incurred marketing, selling, and advertising costs of $72,201 and $96,711, respectively.

General and Administrative Expenses

General and administrative expenses include payroll and benefit costs for corporate team members, equity-based compensation expenses, occupancy costs of corporate facilities, bank charges and costs associated with credit and debit card interchange fees, outside service fees, and other administrative costs, such as computer maintenance, supplies, travel, and lodging.

(in thousands, except share/unit data and per share/unit amounts)

Depreciation and Amortization

Depreciation includes expenses related to the Company's property, plant and equipment, including finance leases. Amortization includes expenses related to definite-lived intangible assets and capitalized software. Depreciation and amortization is calculated using the straight-line method over the useful lives of the related assets, ranging from three to ten years. Leasehold improvements are amortized using the straight-line method over the shorter of the related lease terms or their useful lives. Depreciation and amortization is included in cost of revenues, marketing and selling expenses, and general and administrative expenses depending on the purpose of the related asset.

Depreciation and amortization by financial statement line item were as follows:

	Three Months Ended March 31,	
	2023	**2022**
Cost of revenues	$ 4,605	$ 5,843
Marketing and selling expenses	429	964
General and administrative expenses	10,839	12,109
Total	$ 15,873	$ 18,916

Fair Value of Financial Instruments

The Company measures the fair value of financial instruments as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 — Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 — Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The Company's financial instruments consist of cash, current and non-current receivables, accounts payable, debt instruments, and derivative financial instruments. Due to their short-term nature, the carrying values of cash, current receivables, and trade payables approximate current fair value at each balance sheet date. The Company had $883,146 and $873,888 in borrowings under its debt facilities (as discussed in Note 9) as of March 31, 2023 and December 31, 2022, respectively. The fair value of the Company's debt facilities is based upon market quotes and trades by investors in partial interests of these instruments (Level 2). As of March 31, 2023, the fair value of the 2026 Convertible Senior Notes (as defined below) was approximately $74,750 compared to its carrying value of $735,211. The Company entered into a 2022 HPS Credit Facility (as defined below) on April 27, 2022. Based on market interest rates (Level 2 inputs), the carrying value of the borrowings for the 2022 HPS Credit Facility approximates fair value for each period reported.

Certain Risks and Uncertainties

The Company's operating results depend to a significant extent on the ability to market and develop its products. The life cycles of the Company's products are difficult to estimate due, in part, to the effect of future product enhancements and competition. The inability to successfully develop and market the Company's products as a result of competition or other factors would have a material adverse effect on its business, financial condition, and results of operations.

(in thousands, except share/unit data and per share/unit amounts)

The Company provides credit to customers in the normal course of business. The Company maintains reserves for potential credit losses and such losses have been within management's expectations. No individual customer accounted for 1% or more of the Company's accounts receivable at March 31, 2023 or December 31, 2022, or net revenue for the three months ended March 31, 2023 and 2022.

Some of the Company's products are considered medical devices and are subject to extensive regulation in the U.S. and internationally. The regulations to which the Company is subject are complex. Regulatory changes could result in restrictions on the Company's ability to carry on or expand its operations, higher than anticipated costs or lower than anticipated sales. The failure to comply with applicable regulatory requirements may have a material adverse impact on the Company.

The Company's reliance on international operations exposes it to related risks and uncertainties, including difficulties in staffing and managing international operations, such as hiring and retaining qualified personnel; political, social and economic instability; interruptions and limitations in telecommunication services; product and material transportation delays or disruption; trade restrictions and changes in tariffs; import and export license requirements and restrictions; fluctuations in foreign currency exchange rates; and potential adverse tax consequences. If any of these risks materialize, operating results may be harmed.

The Company purchases certain inventory from sole suppliers, and the inability of any supplier or manufacturer to fulfill the supply requirements could materially and adversely impact its future operating results.

We obtain and process a large amount of sensitive data. Our systems and networks may be subject to cybersecurity breaches and other disruptions that could compromise our information. On May 3, 2021, the Company announced that it experienced a systems outage that was caused by a cybersecurity incident on April 14, 2021 (the "Incident"). During 2022, we received $8000, in insurance proceeds as final settlement related to reimbursement of expenses and business interruption as result of the Incident.

Cash

Cash consists of all highly liquid investments with original maturities of less than three months. Cash is held in various financial institutions in the U.S. and internationally.

Restricted cash

Restricted cash primarily consists of cash restricted in connection with the 2022 HPS Credit Facility (as defined below) for the Company's capital structure. Restricted cash is included under non-current assets for debt that will expire in more than one year from the balance sheet date.

Reconciliation of cash and restricted cash were as follows:

	March 31, 2023	December 31, 2022
Cash	$ 59,125	$ 93,120
Restricted cash	27,129	25,278
Total cash and restricted cash	$ 86,254	$ 118,398

Inventories

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method of inventory accounting. Inventory consists of raw materials for producing impression kits and aligners and finished goods. Inventory is net of shrinkage and obsolescence.

Property, Plant and Equipment, Net

Property, plant and equipment are stated at cost less accumulated depreciation and amortization and impairment charges. Routine maintenance and repairs are charged to expense as incurred. At the time property, plant and equipment are retired from service, the cost and accumulated depreciation or amortization are removed from the respective accounts and the related gains or losses are reflected in the interim condensed consolidated statements of operations.

Leases

The Company categorizes leases at their inception as either operating or finance leases. Lease agreements cover certain retail locations, office space, warehouse, manufacturing and distribution space and equipment. Operating leases are included in operating lease right-of-use assets, other current liabilities, and long-term operating lease liabilities in the interim condensed consolidated balance sheets. Finance leases are included in property, plant and equipment, net, current portion of long-term debt, and long-term debt.

Leased assets represent the Company’s right to use an underlying asset for the lease term, and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The Company uses a secured incremental borrowing rate as the discount rate for determining the present value of lease payments when the rate implicit in the contract is not readily determinable. Leases that have a term of twelve months or less upon commencement date are considered short-term in nature. Accordingly, short-term leases are not included on the interim condensed consolidated balance sheets and are expensed on a straight-line basis over the lease term, which commences on the date we have the right to control the property.

Internally Developed Software Costs

The Company generally provides services to its customers using software developed for internal use. The costs that are incurred to develop such software are expensed as incurred during the preliminary project stage. Once certain criteria have been met, direct costs incurred in developing or obtaining computer software are capitalized. Training and maintenance costs are expensed as incurred. Capitalized software costs are included in property, plant and equipment in the interim condensed consolidated balance sheets and are amortized over the useful life of the software which is generally a three-year to five-year period. During the three months ended March 31, 2023 and 2022, the Company capitalized $6,953 and $3,755, respectively, of internally developed software costs. Amortization expense for internally developed software was $7,455 and $5,781 for the three months ended March 31, 2023, and 2022, respectively.

Impairment

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. An asset or asset group is considered impaired if its carrying amount exceeds the future undiscounted net cash flows that the asset or asset group is expected to generate. Factors the Company considers important which could trigger an impairment review include significant negative industry or economic trends, significant loss of customers and changes in the competitive environment. If an asset or asset group is considered to be impaired, the impairment to be recognized is calculated as the amount by which the carrying amount of the asset or asset group exceeds its fair market value. The Company’s estimates of future cash flows attributable to long-lived assets require significant judgment based on its historical and anticipated results and are subject to many assumptions. The estimation of fair value utilizing a discounted cash flow approach includes numerous uncertainties which require significant judgment when making assumptions of expected growth rates and the selection of discount rates, as well as assumptions regarding general economic and business conditions, and the structure that would yield the highest economic value, among other factors.

Debt Issuance Costs

The Company records debt issuance costs related to its term debt as direct deductions from the carrying amount of the debt. The costs are amortized to interest expense over the life of the debt using the effective interest method.

Income Taxes

SDC Inc. is the managing member of SDC Financial and, as a result, consolidates the financial results of SDC Financial in the interim condensed consolidated financial statements. SDC Financial and its subsidiaries are limited liability companies and have elected to be taxed as partnerships for income tax purposes except for a subsidiary, SDC Holding, LLC (“SDC Holding”) and its domestic and foreign subsidiaries, which are taxed as corporations. As such, SDC Financial does not pay any federal income taxes, as any income or loss is included in the tax returns of the individual members. SDC Financial does pay state income tax in certain jurisdictions, and the Company’s income tax provision in the interim condensed consolidated financial statements reflects the income taxes for those states. Additionally, certain wholly-owned entities taxed as corporations are subject to federal, state, and foreign income taxes, in the jurisdictions in which they operate, and accruals for such taxes are included in the interim condensed consolidated financial statements. The Company further evaluates deferred tax assets in each jurisdiction and recognizes associated benefits when positive evidence of realization exceeds negative evidence, and otherwise records valuation allowances as necessary.

The Company computes the provision for income taxes using the liability method and recognizes deferred tax assets and liabilities for temporary differences between financial statement and income tax bases of assets and liabilities, as well as for operating loss and tax credit carryforwards. The Company measures deferred tax assets and liabilities using tax rates applicable to taxable income in effect for the years in which those tax assets are expected to be realized or settled and provides a valuation allowance against deferred tax assets when it cannot conclude that it is more likely than not that some or all deferred tax assets will be realized. In addition, the Company recognizes tax benefits from uncertain tax positions only if it expects that its tax positions are more likely than not that they will be sustained, based on the technical merits of the positions, on examination by the jurisdictional tax authority. The Company recognizes any accrued interest and penalties to unrecognized tax benefits as interest expense and income tax expense, respectively.

Tax Receivable Agreement

In connection with the Reorganization Transactions and the IPO, the Company entered into a Tax Receivable Agreement with the Continuing LLC Members, pursuant to which SDC Inc. agreed to pay the Continuing LLC Members 85% of the amount of cash tax savings, if any, in U.S. federal, state, and local income tax or franchise tax that SDC Inc. actually realizes as a result of (a) the increases in tax basis attributable to exchanges by Continuing LLC Members and (b) tax benefits related to imputed interest deemed to be paid by SDC Inc. as a result of the Tax Receivable Agreement. As of March 31, 2023 and December 31, 2022, the Company recognized no liabilities relating to its obligations under the Tax Receivable Agreement, after concluding that it was not probable that the Company would have sufficient future taxable income over the term of the Tax Receivable Agreement to utilize the related tax benefits.

(in thousands, except share/unit data and per share/unit amounts)

Note 3—Inventories

Inventories are comprised of the following:

	March 31, 2023	December 31, 2022
Raw materials	$ 13,682	$ 16,76
Finished goods	26,349	27,62
Total inventories	$ 40,031	$ 44,38

Note 4—Prepaid and Other Assets

Prepaid and other assets are comprised of the following:

	March 31, 2023	December 31, 2022
Prepaid expenses	$ 10,879	$ 9,33
Deposits to vendors	5,328	5,48
Other	518	2,00
Total prepaid and other current assets	$ 16,725	$ 16,83
Prepaid expenses, non-current	$ 939	$ 1,12
Deposits to vendors, non-current	680	72
Indefinite-lived intangible assets	8,036	7,97
Other intangible assets, net	2,988	2,48
Investments and other	5,871	5,65
Total other assets	$ 18,514	$ 17,97

In March 2019, the Company purchased an intangible asset related to manufacturing. The Company evaluates the carrying value of this indefinite-lived intangible asset at least annually or when events and circumstances warrant such a review, to determine whether significant events or changes in circumstances indicate that impairment in value may have occurred. There were no impairment charges related to the Company's indefinite-lived intangible assets during the three months ended March 31, 2023 or 2022.

Note 5—Lease Abandonment, Impairment of Long-lived Assets, Restructuring and Other Related Charges

The Company implemented changes during the three months ended March 31, 2023 resulting in restructuring related charges of $8,701. These charges were primarily associated with asset impairments and employee-related costs, including severance payments. In 2023, the Company announced suspension of operations in France in addition to the previously announced suspension of operations in Austria, Germany, Hong Kong, Mexico, Netherlands, New Zealand, Singapore and Spain in 2022. The Company will continue to operate in Australia, Canada, Ireland, United Kingdom and United States and will scale its presence in each country. With these changes, the Company implemented a reduction in workforce to right-size its operating structure so it is tailored to the countries in which the Company will continue to operate and focus. The Company continues to evaluate its SmileShops and other properties to determine if it will further rationalize its footprint to better align with marketplace demand, including the direct and indirect effects of the COVID-19 pandemic. Additional future restructuring charges may result from the Company's real estate repositioning and optimization initiatives.

(in thousands, except share/unit data and per share/unit amounts)

The following table summarizes lease abandonment and impairment of long-lived assets and restructuring and other related charges for the periods presented:

	Three Months Ended March 31,	
	2023	**2022**
Lease abandonment and impairment of long-lived assets:		
Impairment of property, plant and equipment	$ 192	$ 1,232
Impairment of operating lease right-of-use assets	755	—
	$ 947	$ 1,232
Restructuring and other related charges:		
Impairment of inventory	$ 136	$ 454
Short-term lease termination fees	124	192
Other expenses including personnel related costs such as severance and retention	7,494	10,886
	$ 7,754	$ 11,532

The balance of the unpaid accruals for the restructuring programs recorded in the interim condensed consolidated balance sheet as of March 31, 2023 was $515 in accrued liabilities.

Note 6—Property, Plant and Equipment, Net

Property, plant and equipment were comprised of the following:

	March 31, 2023	**December 31, 2022**
Lab and SmileShop equipment	$ 95,988	$ 96,03
Computer equipment and software	239,696	230,48
Leasehold improvements	31,139	33,83
Furniture and fixtures	13,300	13,80
Vehicles	6,888	6,88
Construction in progress	8,194	8,57
	395,205	389,60
Less: accumulated depreciation	(213,466)	(199,51
Property, plant and equipment, net	$ 181,739	$ 190,08

(in thousands, except share/unit data and per share/unit amounts)

Note 7—Accrued Liabilities

Accrued liabilities were comprised of the following:

		March 31, 2023		December 31, 2022
Accrued marketing and selling costs	$	12,008	$	16,11[illegible]
Accrued payroll and payroll related expenses		8,833		11,21[illegible]
Accrued sales tax and related costs		7,340		7,17[illegible]
Other		25,634		31,42[illegible]
Total accrued liabilities	$	53,815	$	65,93[illegible]

Note 8—Income Taxes

SDC Inc. is the managing member of SDC Financial and, as a result, consolidates the financial results of SDC Financial. SDC Financial and its subsidiaries are limited liability companies and have elected to be taxed as partnerships for income tax purposes except for a subsidiary, SDC Holding and certain of its domestic and foreign subsidiaries, which are taxed as corporations. The Company files income tax returns in the U.S. federal, various states and foreign jurisdictions. Any taxable income or loss generated by SDC Financial is passed through to and included in the taxable income or loss of its members, including SDC Inc., generally on a pro rata basis or otherwise under the terms of the SDC Financial LLC Agreement. The Company is subject to U.S. federal income taxes, in addition to state and local income taxes with respect to its allocable share of any taxable income or loss of SDC Financial, as well as any stand-alone income or loss generated by SDC Inc.

The Company recorded an income tax expense of $321 for the three months ended March 31, 2023 compared to an income tax expense (benefit) of $(1,463) for the three months ended March 31, 2022. The Company's income tax expense may vary from the expense that would be expected based on statutory rates due principally to its organizational structure and recognition of valuation allowances against deferred tax assets.

Note 9—Long-Term Debt

The Company's debt obligations are comprised of the following:

		March 31, 2023		December 31, 2022
2026 Convertible Senior Notes, net of unamortized financing costs $12,289 and $13,345, respectively	$	735,211	$	734,15[illegible]
2022 HPS Credit Facility, net of unamortized financing costs of $2,371 and $2,516, respectively		124,986		115,22[illegible]
Total long-term debt	$	860,197	$	849,37[illegible]

2026 Convertible Senior Notes

On February 9, 2021, the Company issued $650,000 principal amount of the Company's 0.00% Convertible Senior Notes due 2026 (the "2026 Convertible Senior Notes"). The Company also granted the initial purchasers of the Notes an option to purchase up to an additional $97,500 aggregate principal amount of the Notes ("Option Notes"). On February 9, 2021, the initial purchasers of the Notes exercised their option to purchase $70,000 aggregate principal amount of the Option Notes (the "First Greenshoe Exercise"). The sale of the Option Notes from the First Greenshoe Exercise closed on February 12, 2021. On February 11, 2021, the initial purchasers of the Notes exercised the remaining portion of their option to purchase $27,500 aggregate principal amount of the Option Notes (the "Second Greenshoe Exercise" and the Option Notes issued in connection with the Second Greenshoe Exercise, the “Second Greenshoe Option Notes”). The sale of the Second Greenshoe Option Notes closed on February 16, 2021.

The Notes were issued and governed by an indenture, dated February 9, 2021 (the “Indenture”) between the Company and Wilmington Trust, National Association, as trustee. The Notes will mature on February 1, 2026, unless earlier repurchased, redeemed or converted. The Notes will not bear regular interest, and the principal amount of the Notes will not accrete.

The initial conversion rate for the Notes is 55.3710 shares of the Company's Class A Common Stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $18.06 per share of Class A Common Stock. The initial conversion price of the Notes represents a premium of approximately 40% over the last reported sale of $12.90 per share of the Company's Class A Common Stock on February 4, 2021. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events in accordance with the terms of the Indenture.

The Company recorded $21,391 related to deferred financing costs of the Notes. During the three months ended March 31, 2023, the Company amortized deferred financing costs under the effective interest rate method of $1,056.

The Notes are the Company’s senior, unsecured obligations and are (i) equal in right of payment with the Company’s existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company’s existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including the Company’s trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company’s subsidiaries.

The Company may, at its option, redeem some of the Notes, in whole or in part, at the applicable redemption price as set forth in the Indenture.

If certain corporate events that constitute a “Fundamental Change” (as defined in the Indenture) occur, then noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company’s Class A common stock.

The Notes have customary provisions relating to the occurrence of an “Event of Default” (as defined in the Indenture), which include the following: (i) a default by the Company in the payment when due (whether at maturity, upon redemption or repurchase upon fundamental change or otherwise) of the principal of, or the redemption price or fundamental change repurchase price for, any Note (ii) a default by the Company for 30 days in the payment when due of special interest, if any, on any Note; (iii) the Company’s failure to send certain notices under the Indenture within specified periods of time; (iv) a default by the Company in its obligation to convert a Note in accordance with the Indenture upon the exercise of the conversion right with respect thereto, if such default is not cured within three business days after its occurrence; (v) the Company’s failure to comply with certain covenants in the Indenture relating to the Company’s ability to consolidate with or merge with or into, or sell, lease or otherwise transfer, in one transaction or a series of transactions, all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, to another person; (vi) a default by the Company in its other obligations or agreements under the Indenture or the Notes (other than a default set forth in clauses (i), (ii), (iii), (iv) or (v) above) if such default is not cured or waived within 60 days after written notice is given in accordance with the Indenture; (vii) certain defaults by the Company or any of its significant subsidiaries with respect to indebtedness for borrowed money of at least $50,000; and (viii) certain events of bankruptcy, insolvency and reorganization involving the Company or any of the Company’s significant subsidiaries.

If an Event of Default involving bankruptcy, insolvency or reorganization events with respect to the Company (and not solely with respect to a significant subsidiary of the Company) occurs, then the principal amount of, and all accrued and unpaid special interest, if any, on all of the Notes then outstanding will immediately become due and payable without any further action or notice by any person. If any other Event of Default occurs and is continuing, then the Trustee, by notice to the Company, or noteholders of at least 25% of the aggregate principal amount of Notes then outstanding, by written notice to the Company and the Trustee, may declare the principal amount of, and all accrued and unpaid special interest, if any, on all of the Notes then outstanding to become due and payable immediately. However, notwithstanding the foregoing, the Company may elect, at its option, that the sole remedy for an Event of Default relating to certain failures by the Company to comply with certain reporting covenants in the Indenture consists exclusively of the right of the noteholders to receive special interest on the Notes for up to 180 days at a specified rate per annum not exceeding 0.50% on the principal amount of the Notes.

The Company used approximately $69,518 of the net proceeds from the Notes to fund the cost of entering into the capped call transactions described below. The Company used a portion of the remainder of the net proceeds from the offering to repay amounts owed under the 2020 HPS Credit Facility.

On February 4, 2021, in connection with the pricing of the Notes, the Company entered into privately negotiated capped call transactions (the “Base Capped Call Transactions”) with certain of the initial purchasers of the Notes and/or their respective affiliates and/or other financial institutions (the “Option Counterparties”). In addition, on February 9, 2021, in connection with First Greenshoe Exercise and on February 11, 2021, in connection with the Second Greenshoe Exercise, the Company entered into additional privately negotiated capped call transactions (collectively, and together with the Base Capped Call Transactions, the “Capped Call Transactions”) with the Option Counterparties. The Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the number of shares of Class A common stock initially underlying the Notes. The Capped Call Transactions are expected generally to reduce potential dilution to the Class A common stock upon any conversion of the Notes and/or offset any potential cash payments the Company is required to make in excess of the principal amount of such converted Notes, as the case may be, with such reduction and/or offset subject to a cap.

The Capped Call Transactions are separate transactions entered into by the Company with each Option Counterparty, and are not part of the terms of the Notes and will not affect any noteholder’s rights under the Notes. Noteholders will not have any rights with respect to the Capped Call Transactions.

In connection with the issuance of the Notes, SmileDirectClub, Inc. entered into an intercompany convertible promissory note (“Intercompany Convertible Note”) with SDC Financial, LLC, whereby SmileDirectClub, Inc. provided the net proceeds from the issuance of the Notes to SDC Financial, LLC. The terms of the Intercompany Convertible Note mirror the terms of the Notes issued by SmileDirectClub, Inc. The intent of the Intercompany Convertible Note is to maintain the parity of shares of Class A common stock with LLC Units as required by the SDC Financial LLC Agreement.

2020 HPS Credit Facility

In May 2020, SDC U.S. SmilePay SPV (“SPV”), a wholly-owned special purpose subsidiary of the Company, entered into a Loan Agreement among SPV, as borrower, SmileDirectClub, LLC, as the seller and servicer, certain lenders, and HPS Investment Partners, LLC, as administrative agent and collateral agent, providing a five-year secured term loan facility to SPV in an initial aggregate maximum principal amount of $400,000, net of original issue discount of $12,000 (the “2020 HPS Credit Facility”). On March 29, 2021, the 2020 HPS Credit Facility was paid in full and terminated. In connection with the repayment, the unamortized loan costs, the unaccreted warrant value, and the prepayment fee described above are recorded as a loss on extinguishment of debt in the accompanying interim condensed consolidated statements of operations.

2022 HPS Credit Facility

On April 27, 2022, SPV entered into a Loan Agreement (the “2022 HPS Credit Facility”) by and among SPV, as borrower, SmileDirectClub, LLC, as the seller and servicer, certain lenders, and HPS Investment Partners, LLC, as administrative agent and collateral agent, providing a 42-month secured delayed-draw term loan facility to SPV in an aggregate maximum principal amount of up to $255,000.

The Company recorded $5,426 of deferred financing costs on the 2022 HPS Credit Facility. Of the $5,426 deferred financing costs, $2,713 is associated with the unused loan commitment amount and is presented as “Other assets” in the accompanying interim condensed consolidated balance sheets. The remaining costs of $2,713 are amortized over the term of the loan. During the quarter ended March 31, 2023, the Company amortized under the effective interest rate method $329 of deferred financing costs.

Outstanding loans under the 2022 HPS Credit Facility bear interest at a variable rate equal to (i) subject to a 1.00% per annum floor, three-month LIBOR plus 10.75% per annum, of which interest accrued at up to 3.75% per annum may be payable in kind, or (ii) subject to a 2.00% per annum floor, an interest rate equal to the greater of (a) the prime rate in effect from time to time and (b) the federal funds rate in effect from time to time plus 0.5%, plus in each case 9.75% per annum, of which, in each of the foregoing cases, interest accrued at up to 3.75% per annum may be payable in kind. In addition to paying interest on the outstanding principal balance, the Company is required to pay a lender’s commitment fee of 2.75% per annum based on the unused facility amount. As required under the loan agreement, 20% of the loan amount for a total of $27,000 was held into the SDC Cash Reserve account as reflected within restricted cash line on the balance sheet.

Subject to certain exceptions, the 2022 HPS Credit Facility is secured by first-priority security interests in SPV’s assets, which consist of certain receivables, cash, intellectual property and related assets. SPV’s obligations under the 2022 HPS Credit Facility are guaranteed on a limited basis by SmileDirectClub, LLC and SDC Financial LLC (collectively, the “Guarantors”). The Guarantors guarantee (i) on a full recourse basis, up to 10% of SPV’s outstanding obligations under the 2022 HPS Credit Facility plus enforcement costs, and (ii) certain losses incurred by the lenders as a result of fraud, misrepresentation, legal and regulation violations and certain other actions and omissions by SPV and/or certain of its affiliates. The Guarantors do not pledge their assets to secure any obligations of SPV under the 2022 HPS Credit Facility. As of March 31, 2023, the Company had $179,651 of its receivable collateralized as part of the 2022 HPS Credit Facility.

The 2022 HPS Credit Facility contains various restrictions, covenants, ratios and events of default, including:

- SPV has limitations on consolidations, creation of liens, incurring additional indebtedness, dispositions of assets, investments and paying dividends or other distributions.

- SDC Financial LLC, its consolidated subsidiaries and certain originator entities must maintain minimum monthly liquidity of $50,000 and are subject to additional leverage ratios upon the occurrence of additional debt.

If any event of default under the 2022 HPS Credit Facility occurs, then the collateral agent may declare any outstanding obligations under the 2022 HPS Credit Facility to be immediately due and payable. In addition, if SPV or certain of its affiliates become the subject of voluntary or involuntary proceedings under any bankruptcy, insolvency or similar law, then any outstanding obligations under the 2022 HPS Credit Facility will automatically become immediately due and payable.

As of March 31, 2023, the Company had $135,646 outstanding including the original discount of $10,200 and was in compliance with all covenants in the 2022 HPS Credit Facility. The permitted loan balance was $142,861 based on the underlying accounts receivable balances. Amounts drawn, up to $255,000, but in excess of the permitted loan balance are required to be kept in the SDC U.S. SmilePay SPV and are restricted. The Company was in compliance with all covenants related to the 2022 HPS Credit Facility as of March 31, 2023.

HPS Warrants

In connection with the 2020 HPS Credit Facility, the Company issued warrants (“HPS Warrants”) to affiliates of HPS Investment Partners, LLC exercisable at any time into an aggregate of 3,889,575 shares of the Company’s Class A common stock, which amounted to 1% of the Company’s total outstanding Class A and Class B common stock, including the HPS Warrants, as of the closing date of the 2020 HPS Credit Facility, at an exercise price of $7.11 per share, payable in cash or pursuant to a cashless exercise. The HPS Warrants were recorded at their initial fair value of $17,620 and included within stockholders’ equity (deficit). The termination and payoff of the 2020 HPS Credit Facility did not impact the HPS Warrants.

(in thousands, except share/unit data and per share/unit amounts)

Future Maturities

Annual future maturities of long-term debt, excluding unamortized financing costs, are as follows as of March 31, 2023:

	2022 HPS Credit Facility	2026 Convertible Senior Notes	Total
2023 (remaining)	$ —	$ —	$ —
2024	—	—	—
2025	135,646	—	135,646
2026	—	747,500	747,500
2027	—	—	—
Total	$ 135,646	$ 747,500	$ 883,146

Note 10—Noncontrolling Interests

SDC Inc. is the sole managing member of SDC Financial, and consolidates the financial results of SDC Financial. Therefore, SDC Inc. reports a noncontrolling interest based on the common units of SDC Financial held by the Continuing LLC Members. Changes in SDC Inc.'s ownership interest in SDC Financial, while SDC Inc. retains its controlling interest in SDC Financial, are accounted for as equity transactions. As such, future redemptions or direct exchanges of LLC Units by the Continuing LLC Members will result in a change in ownership and reduce or increase the amount recorded as noncontrolling interest and increase or decrease additional paid-in capital when SDC Financial has positive or negative net assets, respectively. As of March 31, 2023, SDC Inc. had 130,974,872 shares of Class A common stock outstanding, which resulted in an equivalent amount of ownership of LLC Units by SDC Inc. As of March 31, 2023, SDC Inc. had a 32.8% economic ownership interest in SDC Financial.

Note 11—Variable Interest Entities

Upon completion of the IPO, SDC Inc. became the managing member of SDC Financial with 100% of the management and voting power in SDC Financial. In its capacity as managing member, SDC Inc. has the sole authority to make decisions on behalf of SDC Financial and bind SDC Financial to signed agreements. Further, SDC Financial maintains separate capital accounts for its investors as a mechanism for tracking earnings and subsequent distribution rights. Accordingly, management concluded that SDC Financial is determined to be a limited partnership or similar legal entity as contemplated in ASC 810.

Furthermore, management concluded that SDC Inc. is SDC Financial's primary beneficiary. As the primary beneficiary, SDC Inc. consolidates the results of SDC Financial for financial reporting purposes under the variable interest consolidation model guidance in ASC 810.

SDC Inc.'s relationship with SDC Financial results in no recourse to the general credit of SDC Inc. SDC Financial and its consolidated subsidiaries represents SDC Inc.'s sole investment. SDC Inc. shares in the income and losses of SDC Financial in direct proportion to SDC Inc.'s ownership percentage. Further, SDC Inc. has no contractual requirement to provide financial support to SDC Financial.

SDC Inc.'s financial position, performance and cash flows effectively represent those of SDC Financial as of and for the three months ended March 31, 2023 and 2022. Prior to the IPO and Reorganization Transactions, SDC Inc. was not impacted by SDC Financial.

(in thousands, except share/unit data and per share/unit amounts)

Note 12—Incentive Compensation Plans

In connection with the IPO, the Company adopted the 2019 Omnibus Incentive Compensation Plan (the "2019 Plan") in August 2019. The Company's board of directors or the compensation committee of the board of directors, acting as plan administrator, administers the 2019 Plan and the awards granted under it. The Company reserved a total of 38,486,295 shares of Class A common stock for issuance pursuant to the 2019 Plan. The Company currently has two types of share-based compensation awards outstanding under the 2019 Plan: Class A common stock options ("Options") and Class A restricted stock units ("RSUs"), including those issued pursuant to IBAs.

Class A Common Stock Options

Options activity was as follows during the three months ended March 31, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Number of Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2022	1,387,491	$ 22.91	6.6	$ -
Granted	—	—	—	-
Exercised	—	—	—	-
Expired	(12,500)	12.21	—	-
Forfeited	—	—	—	-
Outstanding at March 31, 2023	1,374,991	$ 23.00	6.5	$ -
Exercisable at March 31, 2023	1,374,991	$ 23.00	6.5	$ -

The Company estimates fair value of the Options using the Black-Scholes option pricing model. There were no grants during the three months ended March 31, 2023.

Restricted Stock Units

The Company granted RSUs to certain team members that generally vest annually over two to four years or after four years from the date of grant, subject to the recipient's continued employment or service to the Company through each vesting date.

A summary of activity related to these RSUs is as follows:

	RSUs	Weighted Average Grant Date Fair Value
RSUs outstanding, December 31, 2022	27,131,831	$ 2.63
Granted	19,054,573	0.54
Vested	(6,411,636)	3.59
Forfeited	(1,996,975)	2.00
RSUs outstanding, March 31, 2023	37,777,793	$ 1.54

As of March 31, 2023, unrecognized RSUs compensation expense was $53,694. This expense is expected to be recognized over a weighted average period of 2.7 years.

During the quarter ended March 31, 2022, there were 23,999,293 shares of RSUs granted with a weighted-average fair value of $2.35 per share.

Employee Stock Purchase Plan

The SmileDirectClub, Inc. team member Stock Purchase Plan ("SPP") was initiated in November 2019. Under the SPP, the Company is authorized to issue up to 5,772,944 shares of its Class A common stock to qualifying employees. Eligible team members may direct the Company, during each six months option period, to withhold up to 30% of their base salary and commissions, the proceeds from which are used to purchase shares of Class A common stock at a price equal to the lesser of 85% of the closing market price on the exercise date or the grant date. For accounting purposes, the SPP is considered a compensatory plan such that the Company recognizes equity-based compensation expense based on the fair value of the options held by the employees to purchase the Company's shares.

Summary of Equity-Based Compensation Expense

The Company recognized compensation expense of $6,630 and $5,306 for the three months ended March 31, 2023 and 2022, respectively. Amounts are included in general and administrative expense on the interim condensed consolidated statements of operations.

Note 13—Earnings (Loss) Per Share

Basic earnings per share of Class A common stock is computed by dividing net loss attributable to SDC Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net loss attributable to SDC Inc., adjusted for the assumed exchange of all potentially dilutive LLC Units for Class A common stock, by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive elements.

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings (loss) per share of Class A common stock:

(in thousands, except share/unit data and per share/unit amounts)

	Three Months Ended March 31,	
	2023	2022
Numerator:		
Net loss	$ (65,727)	$ (73,204)
Less: Net loss attributable to noncontrolling interests	(44,308)	(50,623)
Net loss attributable to SDC Inc. - basic	(21,419)	(22,581)
Add: Reallocation of net loss attributable to noncontrolling interests from the assumed exchange of LLC Units for Class A common stock	(44,308)	(50,623)
Net loss attributable to SDC Inc. - diluted	$ (65,727)	$ (73,204)
Denominator:		
Weighted average shares of Class A common stock outstanding - basic	129,769,504	120,191,790
Add: Dilutive effects as shown separately below		
LLC Units that are exchangeable for Class A common stock	268,819,057	269,106,138
Weighted average shares of Class A common stock outstanding - diluted	398,588,561	389,297,928
Earnings (loss) per share of Class A common stock outstanding - basic	$ (0.17)	$ (0.19)
Earnings (loss) per share of Class A common stock outstanding - diluted	$ (0.16)	$ (0.19)

Shares of the Company's Class B common stock do not participate in the earnings or losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted earnings (loss) per share of Class B common stock under the two-class method has not been presented.

Due to their anti-dilutive effect, the following securities have been excluded from diluted net earnings (loss) per share in the periods presented:

	Three Months Ended March 31,	
	2023	2022
Options	1,374,991	1,435,863
Restricted Stock Units	37,777,793	26,759,341
Warrants	3,889,575	3,889,575
Shares issuable under the Notes (if converted method)[1]	41,389,822	41,389,822

(1) In connection with the issuance of the Notes, the Company entered into Capped Call Transactions, which were not included for purposes of calculating the number of diluted shares outstanding, as their effect would have been anti-dilutive. The Capped Call Transactions are expected to reduce the potential dilution to the Company's common stock (or, in the event a conversion of the Notes is settled in cash, to reduce its cash payment obligation) in the event that at the time of conversion of the Notes the Company's common stock price exceeds the conversion price of the Notes.

Note 14—Employee Benefit Plans

The Company has a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code of 1986, as amended, that covers substantially all U.S. employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. For the three months ended March 31, 2023 and 2022, the Company matched 100% of employees' salary deferral contributions up to 3% and 50% of employees' salary deferral contributions from 3% to 5% of employees' eligible compensation. The Company contributed $580 and $835 to the 401(k) plan for the three months ended March 31, 2023 and 2022, respectively.

Note 15—Related Party Transactions

Products and Services

The Company purchased legal services from a law firm where a partner is an immediate family member of an executive officer and director of the Company. Fees paid for services and costs totaled $1,578 and $2,269 for the three months ended March 31, 2023 and 2022, respectively.

Note 16—Commitments and Contingencies
Legal Matters

In the ordinary course of conducting its business, the Company is involved, from time to time, in various contractual, product liability, intellectual property, and other claims and disputes incidental to its business. Litigation is subject to many uncertainties, the outcome of individual litigated matters is not predictable with assurance, and it is reasonably possible that some of these matters may be decided unfavorably to the Company and could have a material impact on the financial statements. In addition, the Company periodically receives communications from state and federal regulatory and similar agencies inquiring about the nature of its business activities, licensing of professionals providing services, and similar matters. Such matters are routinely concluded with no financial or operational impact on the Company.

From September to December 2019, a number of purported stockholder class action complaints were filed in the U.S. District Court for the Middle District of Tennessee and in state courts in Tennessee, Michigan, and New York against the Company, members of the Company's board of directors, certain of its current or former officers, and the underwriters of its IPO. The following complaints have been filed to date: Mancour v. SmileDirectClub, Inc., 19-1169-IV (TN Chancery Court filed 9/27/19), Vang v. SmileDirectClub, Inc., 19c2316 (TN Circuit Court filed 9/30/19), Fernandez v. SmileDirectClub, Inc., 19c2371 (TN Circuit Court filed 10/4/19), Wei Wei v. SmileDirectClub, Inc., 19-1254-III (TN Chancery Court filed 10/18/19), Andre v. SmileDirectClub, Inc., 19-cv-12883 (E.D. Mich. filed 10/2/19), Ginsberg v. SmileDirectClub, Inc., 19-cv-09794 (S.D.N.Y. filed 10/23/19), Franchi v. SmileDirectClub, Inc., 19-cv-962 (M.D. Tenn. filed 10/29/19), Nurlybayev v. SmileDirectClub, Inc., 19-177527-CB (Oakland County, MI Circuit Court filed 10/30/19), Sasso v. Katzman, et al., No. 657557/2019 (NY Supreme Court filed 12/18/19), Nurlybayev v. SmileDirectClub, Inc., No. 652603/2020 (Supreme Ct. N.Y. Cty. filed June 19, 2020). The complaints all allege, among other things, that the registration statement filed with the SEC on August 16, 2019, and accompanying amendments, and the Prospectus filed with the SEC on September 13, 2019, in connection with the Company's initial public offering were inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and omitted to state material facts required to be stated therein. The complaints seek unspecified money damages, other equitable relief, and attorneys' fees and costs. All the actions are in the preliminary discovery stage. The Company denies any alleged wrongdoing and is vigorously defending against these actions.

In December 2019, the Fernandez, Vang, Mancour and Wei Wei actions were consolidated and re-captioned In re SmileDirectClub, Inc. Securities Litigation, 19-1169-IV (Davidson County, TN Chancery Court). Plaintiffs filed a consolidated amended complaint on December 20, 2019, and Defendants moved to stay or dismiss the action on February 10, 2020. On June 4, 2020, the court denied that motion. Defendants subsequently moved for permission to seek an interlocutory appeal of that decision. On June 22, 2020, the court granted that motion. On August 3, 2020, Defendants filed an application for interlocutory appeal with the court of appeals, which was denied. On September 21, 2020, Defendants filed an application for interlocutory appeal with the Tennessee Supreme Court, which was denied. On October 2, 2020, Plaintiffs moved for class certification, which Defendants opposed on January 25, 2021. On April 28, 2021, the court ruled in favor of the Plaintiffs class certification. The Company filed its notice of appeal on May 4, 2021. That appeal was fully briefed as of October 6, 2021. All trial court proceedings are stayed during the pendency of the appeal. On March 18, 2022, the Tennessee Court of Appeals dismissed the Plaintiff's Section 12(a)(2) claims but affirmed the grant of certification. On October 24, 2022, plaintiffs in the *Franchi* action described below moved to intervene in this action, and their motion was denied on December 6, 2022. The case is currently in discovery and the deadline for completion of fact discovery is June 13, 2023.

The Andre and Ginsberg actions were transferred to the U.S. District Court for the Middle District of Tennessee, where they were consolidated with the Franchi action. Plaintiffs filed a consolidated amended complaint on February 21, 2020, and Defendants moved to dismiss the action on March 23, 2020. That motion remains pending. While that motion was pending, the parties stipulated to allow Plaintiffs to file a further amended complaint, which Plaintiffs filed on March 31, 2021. Defendants' motion to dismiss the new complaint was due on or before May 14, 2021. That motion was fully briefed as of July 19, 2021. On September 30, 2022, the Court denied in part and granted in part Defendants' motion to dismiss. Defendants filed an answer to the second amended complaint on November 14, 2022. The court held an initial case management conference on December 2, 2022. The case is currently in discovery and the deadline for completion of fact discovery has been extended to August 14, 2023.

In the Sasso action, Plaintiff agreed to stay the action pending resolution of any motions to dismiss in any of the related actions. The Court so-ordered the parties' stipulation to that effect on January 22, 2020. On November 4, 2022, and again on February 2, 2023, the parties agreed to extend the stay and provide an update to the Court on May 3, 2023.

In September 2019, a putative class action on behalf of a consumer and three orthodontists was brought against the Company in the U.S. District Court for the Middle District of Tennessee, Ciccio, et al. v. SmileDirectClub, LLC, et al., Case No. 3:19-cv-00845 (M.D. Tenn.). The Plaintiffs assert claims for breach of warranty, false advertising under the Lanham Act, common law fraud, and various state consumer protection statutes relating to the Company's advertising. Following a proactive voluntary dismissal by the majority of consumer plaintiffs, one consumer has since sought to rejoin the Middle District of Tennessee litigation or, in the alternative, to intervene, which the Court granted. That ruling has been appealed, and the Court stayed the consumer claims pending the appeal. On June 25, 2021, the appellate court reversed the district court and remanded with instructions to order the intervening plaintiff to mandatory binding arbitration. On September 20, 2022, the administrative AAA arbitrator confirmed that the consumer claims are subject to binding arbitration on an individual basis. All remaining consumer claims remain stayed. On October 13, 2021, the Court entered an Amended Scheduling Order, effectively staying merits discovery on the provider plaintiff claims, and setting deadlines of March 30, 2022, to complete class certification fact discovery and September 2, 2022, to complete briefing on motions regarding class certification. Class certification fact discovery was substantially completed on March 30, 2022 with the briefing on class certification currently stayed pending further discovery being sought by the Company. No hearing date on the impending class certification motion or trial date has been scheduled. The Company denies any alleged wrongdoing and intends to defend against this action vigorously.

Some state dental boards have established new rules or interpreted existing rules in a manner that limits or restricts the Company's ability to conduct its business as currently conducted in other states or have engaged in conduct so as to otherwise interfere with the Company's ability to conduct its business. We have filed actions in federal court in Alabama, Georgia, and California against the state dental boards in those states, alleging violations by the dental boards of various laws, including the Sherman Act and the Commerce Clause. While a national orthodontic association has filed Amicus Briefs in support of the dental boards in both the Georgia and Alabama litigations and has filed a motion to do the same in California (which motion was denied), the FTC and DOJ filed joint Amicus Briefs in support of the Company in both the Alabama and Georgia matters. Both the Alabama and Georgia matters were then sent to the 11th Circuit Court of Appeals as a result of the dental boards in both states appealing the lower court's decisions. Oral argument before the 11th Circuit Court of Appeals occurred in the Georgia matter on May 20, 2020, and in the Alabama matter on July 8, 2020. The FTC and DOJ participated in oral arguments in support of the Company. The DOJ's antitrust chief presented in the Alabama matter. On August 11, 2020, the 11th Circuit Court of Appeals affirmed the Georgia district court's denial of the board members' motion to dismiss. On December 8, 2020, the 11th Circuit Court of Appeals voted to have a rehearing en banc. The FTC and DOJ filed an amicus and participated in oral argument that was held on February 23, 2021. On July 20, 2021, the 11th Circuit Court of Appeals ruled in the Company's favor, finding that the Georgia Dental Board did not have an interlocutory right of appeal and therefore denied the Georgia Board's appeal. On July 29, 2021, the 11th Circuit Court of Appeals also denied the Alabama Dental Board's appeal. Both cases were remanded to the respective District Courts to proceed accordingly into the discovery phase. The FTC also filed its own complaint against the Alabama Board for violating the Sherman Act, which complaint resulted in the Alabama Dental Board entering into a Consent Order in September 2021 and settling the litigation with the Company in December 2021.

On November 22, 2021, the Georgia Board filed a motion to dismiss in the Northern District of Georgia. On January 6, 2022, a hearing was held on the motion to dismiss. On July 15, 2022, the Court granted the Georgia Board's motion to dismiss without prejudice, allowing the Company to reassert its claims. Briefing on the Company's motion for leave to file its amended Complaint is now complete and oral arguments occurred on November 15, 2022. On March 31, 2023, the Court granted in part and denied in part the Company's motion for leave to file its amended Complaint. The matter is now proceeding back to the discovery phase. The California matter was amended, and an order of dismissal was entered on July 7, 2020. The Company filed notice of appeal on July 17, 2020, and the FTC and DOJ filed a joint Amicus Brief in support of the Company. Oral argument was held on July 26, 2021, with the FTC and DOJ arguing in support of the Company at oral argument as well. On March 17, 2022, the 9th Circuit issued its ruling reversing in part and affirming in part the District Court's decision. On April 21, 2022, the 9th Circuit issued an amended opinion adding a footnote indicating that no petitions for panel rehearing or rehearing en banc will be entertained. The parties are currently engaged in discovery, including preparing for mediation, engaging in discovery motions practice, producing and reviewing documents responsive to requests for production, preparing for depositions, and preparing for expert discovery. The parties have attended mediation on March 8, 2023 and settlement discussions are ongoing. Fact discovery is scheduled to close on June 15, 2023.

On July 12, 2021, the Australian Competition & Consumer Commission ("ACCC") filed an Originating Application against SmileDirectClub, LLC and the Company's Australian affiliate SmileDirectClub Aus Pty Ltd. The Originating Application alleges certain misstatements by the Company in connection with the availability of consumers having the ability to have private health care coverage cover a portion of their costs when seeking treatment through the Company's telehealth platform. The Company and the ACCC have settled the matter with the terms of such settlement having been approved by the Court. Pursuant to such approved settlement, the Company will pay a set fine and costs to the ACCC and has implemented a redress program for potentially impacted customers so as to fully resolve the matter.

On August 27, 2020, Align Technology, Inc. ("Align") filed an arbitration demand against SDC alleging that SDC breached the Amended and Restated Supply Agreement (the "Align Agreement") between the parties and SDC, subsequently, filed counterclaims against Align alleging breaches by Align under the Align Agreement. The arbitration is proceeding in two phases to address the parties' claims. The hearing on the initial phase addressing Align's claims and one of SDC's counterclaims occurred in July 2022 and the second phase of the arbitration addressing the balance of SDC's counter claims hearing occurred in February 2023. Closing briefing schedules and oral argument have not yet been scheduled on the matter. On October 27, 2022, the arbitrator issued an interim award against SDC on certain of Align's claims, specifically stating that it was not final award, and that final award would be issued after the second phase of the arbitration and subsequent proceedings on attorneys' fees, interest, and costs. A final award against SDC in this arbitration could be material to our financial statements. The second phase of the arbitration addressing the Company's counter claim, was held from February 21st through the 23rd, 2023. Post closing briefing has been concluded and the arbitrator has indicated that he intends to issue an interim award on this phase by June 11, 2023. The Company denies the allegations and intends to vigorously defend its position in this arbitration.

On December 5, 2022, the District of Columbia filed a complaint against the Company in the Superior Court of the District of Columbia alleging certain violations of the District of Columbia Consumer Protection Procedures Act. The Company has filed a Motion to Dismiss and briefing on the Motion to Dismiss has been concluded. The Court has not ruled whether oral argument will be heard on this pending motion and no ruling date has been set. The Company denies the allegations and intends to vigorously defend its position in this litigation.

On January 3, 2023, Align filed a complaint against the Company and certain of its officers and founders in the United States District Court for the Northern District of California, ***Align Technology v. SmileDirectClub, LLC et al***., Case No. 3:23-cv-00023 (N.D. Calif), purporting to set forth claims for alleged false advertising in violation of the Lanham Act, 15 U.S.C. § 1125(A); Racketeer & Corrupt Organizations Act, 18 U.S.C. § 1964(c); California Business & Prof. Code, §§ 17200, 17500, et seq.; and Arizona Anti-Racketeering Statute, A.R.S. § 13-2314. The Company denies the allegations and has filed motions to dismiss the claims. Briefing on the motions to dismiss have been completed and oral argument is set for May 4, 2023. The Company denies the allegations and intends to vigorously defend its position in this litigation.

Tax Receivable Agreement

As described in Note 8, the Company is a party to the Tax Receivable Agreement pursuant to which SDC Inc. is contractually committed to pay the Continuing LLC Members 85% of the amount of any tax benefits that SDC Inc. actually realizes, or in some cases is deemed to realize, as a result of certain transactions. The Company is not obligated to make any payments under the Tax Receivable Agreement ("TRA") until the tax benefits associated with the transactions that gave rise to the payments are realized. TRA Payments are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If the Company does not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then it will not be required to make the related TRA Payments. During the three months ended March 31, 2023 and 2022, the Company recognized no liabilities relating to its obligations under the Tax Receivable Agreement, after concluding that it was not probable that the Company would have sufficient future taxable income over the term of the Tax Receivable Agreement to utilize the related tax benefits. There were no transactions subject to the Tax Receivable Agreement for which the Company recognized the related liability, as the Company concluded that it would not have sufficient future taxable income to utilize all of the related tax benefits.

Other Tax Matters

We operate in numerous jurisdictions in which taxing authorities may challenge our position with respect to income and non-income-based taxes. We routinely receive inquiries and may also from time to time receive challenges or assessments from these taxing authorities. With respect to non-income-based taxes, we recognize liabilities when we believe it is probable that amounts will be owed to the taxing authorities and such amounts are estimable. For example, in most countries we charge and remit Value Added Tax ("VAT") when procuring goods and services, or providing services, within the normal course of business. VAT receivables are established in jurisdictions where input VAT exceeds output VAT and are recoverable through the filing of refund claims. These receivables have inherent audit and collection risks unique to the specific jurisdictions that evaluate our refund claims. We have received a challenge from a non-U.S. taxing authority for VAT related to certain sales made and services provided by certain of the Company's subsidiaries. The Company believes these transactions are exempt from VAT and has filed legal actions challenging the taxing authority's application of VAT to them. Discussions on these matters are ongoing. The Company believes its interpretation of these VAT rules is appropriate, and that it will be successful in its challenge against the taxing authority's assessments. Accordingly, the Company does not believe it is probable that it will incur a loss related to these matters. However, the interpretation and application of these VAT rules is an unsettled issue, and the resolution of tax and regulatory matters is unpredictable. If it is determined in these proceedings that VAT applies to some or all of these various transactions, the Company could incur a charge that ranges between zero and $35,200 for these matters, including any interest and penalties associated with these matters and the amount, if any, of VAT the Company might subsequently recover related to its input costs.

Note 17—Segment Reporting

The Company provides aligner products. The Company's chief operating decision maker ("CODM") views the operations and manages the business primarily on a consolidated basis, however, the CODM regularly evaluates, monitors, and makes operational decisions based on the results of operations segmented between North America (defined as the U.S. and Canada) and Rest of World. For the three months ended March 31, 2023, approximately 82.9% of the Company's revenues were generated by sales within North America, and substantially all of its net property, plant and equipment was within North America. Below are the tabular results of operations summarized at the revenue and operating loss level for North America and the Rest of World for the three months ended March 31, 2023 and 2022.

(in thousands, except share/unit data and per share/unit amounts)

	Three Months Ended March 31, 2023		
	North America	Rest of World	Total
Revenue	$ 99,311	$ 20,466	$ 119,777
Net loss before provision for income tax expense (benefit)	$ (48,206)	$ (17,200)	$ (65,406)
Reconciliation of net loss before provision for income tax expense (benefit) to Adjusted EBITDA			
Depreciation and amortization	$ 13,483	$ 2,390	$ 15,873
Interest expense	7,687	22	7,709
Lease abandonment and impairment of long-lived assets	947	—	947
Restructuring and other related costs	5,834	1,920	7,754
Equity-based compensation	5,679	951	6,630
Other non-operating general and administrative losses	96	(74)	22
Adjusted EBITDA	$ (14,480)	$ (11,991)	$ (26,471)

	Three Months Ended March 31, 2022		
	North America	Rest of World	Total
Revenue	$ 129,030	$ 22,616	$ 151,646
Net loss before provision for income tax expense (benefit)	$ (54,029)	$ (20,638)	$ (74,667)
Reconciliation of net loss before provision for income tax expense (benefit) to Adjusted EBITDA			
Depreciation and amortization	$ 15,554	$ 3,362	$ 18,916
Interest expense	1,534	22	1,556
Lease abandonment and impairment of long-lived assets	—	1,232	1,232
Restructuring and other related costs	8,510	3,022	11,532
Equity-based compensation	4,537	769	5,306
Other non-operating general and administrative losses	869	815	1,684
Adjusted EBITDA	$ (23,025)	$ (11,416)	$ (34,441)

Note 18—Subsequent Events

No subsequent events.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our interim condensed consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical interim condensed consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in any forward-looking statements. Factors that could cause or contribute to these differences include those factors discussed below, disclosed elsewhere in this Quarterly Report on Form 10-Q, and in our Annual Report on Form 10-K for the year ended December 31, 2022, particularly under the heading "Risk Factors."

See "Cautionary Statement Regarding Forward-Looking Statements."

We are an oral care company and the creator of the first MedTech platform for teeth straightening. Through our cutting-edge teledentistry technology and vertically integrated model, we are revolutionizing the oral care industry, from clear aligner therapy to our affordable, premium oral care product line. Our mission is to democratize access to a smile each and every person loves by making it affordable and convenient for everyone. We are headquartered in Nashville, Tennessee and operate in the U.S., Costa Rica, Puerto Rico, Canada, Australia, United Kingdom, and Ireland.

Key Business Metrics

We review the following key business metrics to evaluate our business performance:

Unique aligner order shipments

For the three months ended March 31, 2023 and 2022, we shipped 59,645 and 62,705 unique aligner orders, respectively. Each unique aligner order shipment represents a single contracted customer.

Average aligner gross sales price

We define average gross sales price (''ASP") as gross revenue, before implicit price concession and other variable considerations and exclusive of sales tax, from aligner orders shipped divided by the number of unique aligner orders shipped. We believe ASP is an indicator of the value we provide to our members and our ability to maintain our pricing. Our ASP for the three months ended March 31, 2023 and 2022 was $1,949 and $1,917, respectively. Our ASP is less than our standard $2,050 price as a result of discounts offered to select customers.

Key Factors Affecting Our Performance

We believe that our future performance will depend on many factors, including those described below and in the section titled "Risk Factors" included in Part I, Item 1A. in our Annual Report on Form 10-K for the year ended December 31, 2022.

Realignment of global workforce and strategic actions to increase profitability

On January 27, 2023, we announced a realignment of our operating programs and global workforce to further hone focus on our core business and technology enabled innovation portfolio, and introduce additional cost savings to the Company's operating plan in order to enable growth, and sustainable positive cash flow.

These actions to right-size the business are the natural next steps in the changes we introduced in 2022 to realign our operations in order to execute against our growth opportunities with efficiency and financial discipline. The opportunities we are in the process of launching include completing the launch of our artificial intelligence-enabled 3D mobile scanning technology, or SmileMaker Platform, which allows customers to scan their teeth using their mobile phone and receive a proposed aligner treatment plan in minutes, as well as our premium CarePlus offering, which allows customers to begin their treatment at a participating SmileDirectClub Partner Network office and receive an enhanced level of hybrid remote and in-person treatment. While we focus our resources on the successful deployment of these initiatives, we have paused expansion into new international markets while the global economy recovers from pandemic and macroeconomic pressures that have contributed to challenging operating environments.

Launch of new initiatives during 2023

On November 18, 2022, we announced the launch of our AI-powered 3D mobile imaging product, the SmileMaker Platform, in Australia that is an industry first in leveraging AI to allow consumers to take a 3D image of their teeth using their mobile device. The platform will be introduced to the U.S. market in the first half of 2023 with the full rollout to all of the markets we operate in by the end of the year. This innovation not only introduces further-technology powered intelligence to our proprietary teledentistry and treatment planning platform, but may also increase customer conversion and decrease the path to purchase time by giving users an instant and initial view of their potential treatment plan and length of treatment.

During the first quarter of 2023, we introduced the SmileDirectClub CarePlus initiative (“SDC Care+”) which features a hybrid in-person or remote treatment approach and elevated service offering designed to appeal to those who want the assurance of beginning treatment at a dentist office with the added convenience of a teledentistry option. SDC Care+ will be priced at $3,900 or less than $115 per month with SmilePay, and includes two years of complementary retainers, a dedicated concierge team including licensed dental assistants and hygienists and remote or in-person check-ins with a Partner Network dentist. The program is now available in four major U.S. markets (San Diego, Sacramento, Orlando and Denver) and will soon expand to further Partner Network offices across the U.S.

COVID-19 pandemic and macroeconomic environment

Although increasing rates of vaccinations across the globe and decreasing governmental restrictions have begun to lessen the impact of COVID-19, we continue to navigate the uncertain and unprecedented economic and operating conditions resulting from the COVID-19 pandemic and its protracted duration.

We bolstered our business continuity plans to address the evolving and on-going operational challenges associated with COVID-19. Specifically, we have a crisis management team that meets regularly with the heads of all functional areas to monitor the regulatory environment and health and safety guidelines and to manage the corresponding changes and impacts to our business. Our technology platforms continue to support a majority work from home environment. Our demand forecasting process is integrated with our suppliers to allow us to maintain target inventory levels. This collaborative relationship also allows us to monitor the impact of COVID-19 on our suppliers, review their related action plans and confirm they meet our standards as well as public health guidelines.

We believe that our teledentistry platform is well suited for the current operating environment. Our impression kit offers the ability to begin treatment or obtain any necessary touch-ups (mid-course corrections or refinements) remotely from home. Although we cannot know or control the duration and severity of COVID-19 and its impact on our business, we will continue to focus on efficient acquisition of new customers, including higher income customers, and controlled growth, each as more specifically discussed below.

We will also continue to evaluate our business due to the negative macroeconomic environment impacting our core demographic, including lower discretionary spending and a challenging economic environment impacted by increased inflation.

Cybersecurity Incident

On May 3, 2021, the Company announced that it experienced a systems outage that was caused by a cybersecurity incident on April 14, 2021 (the “Incident”). We promptly implemented a series of containment and remediation measures to address the Incident, including temporarily isolating and shutting down affected systems and related manufacturing operations. We immediately mobilized our internal engineering security team and engaged leading forensic information technology firms to assist our investigation into the Incident. As a result of these efforts, we were able to successfully block the attack, no ransom was paid, and our systems and operations are back online and performing normally.

We had no data loss from, or other loss of assets as a result of the Incident, including any exposure of customer or team member information. The Incident, however, caused delays and disruptions to parts of our business, including treatment planning, manufacturing operations, and product delivery. We maintain insurance coverage for certain expenses and potential liabilities that may be associated with the Incident. The Incident had a material impact on business operations and financial results in the second quarter of fiscal 2021, including a delay in fulfilling customer orders. As a result, we experienced a decrease to revenue and increase to certain costs associated with our response to the Incident. During 2022, we received $8.0 million in insurance proceeds as final settlement related to reimbursement of expenses and business interruption as result of the Incident.

Efficient acquisition of new customers

- *Visits to our website:* During the first quarter of 2023, we averaged approximately 3-4 million unique visitors to our website each month, and we expect to continue to invest in sales and marketing to spread awareness and increase the number of individuals visiting our website

- *Conversions from visits to aligner orders:* From our website, individuals can either sign up for a SmileShop appointment, order a doctor prescribed impression kit or book an appointment at an affiliated dentist or orthodontist office, which we refer to as our “Partner Network,” to evaluate and ultimately purchase our clear aligner treatment. We expect to continue to invest heavily in our proprietary technology platform, operations, and other processes to improve customer experience from website visit through SmileShop and Partner Network appointment booking, appointment attendance, and aligners ordered; and a similar process for our impression kits.

- *Referrals:* During the first quarter of 2023, we remained strong on our member experience with referrals reaching 19% of all orders. We expect to continue to invest in our member journey to improve our member experience and increase our customer referrals.

- *Downloading our App:* During the fourth quarter of 2022, we launched our AI-powered 3D mobile imaging product, the SmileMaker Platform, in Australia that is an industry first in leveraging AI to allow consumers to take a 3D image of their teeth using their mobile device. The platform will be introduced to the U.S. market in the first half of 2023 with the full rollout to all of the markets we operate in by the end of the year. This innovation not only introduces further-technology powered intelligence to our proprietary teledentistry and treatment planning platform, but may also increase customer conversion and decrease the path to purchase time by giving users an instant and initial view of their potential treatment plan and length of treatment.

SmilePay

We offer SmilePay, a convenient monthly payment plan, to maximize accessibility and provide an affordable option for all of our members. The $250 down payment for SmilePay covers our cost of manufacturing the aligners, and the interest income generated by SmilePay more than offsets the negative impact of delinquencies and cancellations. A number of factors affect delinquency and cancellation rates, including customer-specific circumstances, our efforts in member service and management, and the broader macroeconomic environment.

Investments in transformative innovation

We intend to continue investing in our business to support future growth by focusing on strategies that best address our large market opportunity, both domestically and internationally, and focus on cost discipline across the business. These investments include technological advancements that allow us to serve more customers, improve the customer experience and create efficiencies across our organization. Our key growth initiatives include enhancing our existing product platform; including to improve conversion rate; introducing new products to further differentiate our offerings; expanding our customer acquisition channels; expanding our reach through the professional channel; and expanding our market share with more traditional, higher income customers of clear aligner therapy. Additionally, we are focused on continued advancement in automating and streamlining our manufacturing and treatment planning operations to allow us to stay ahead of consumer demand; continued discipline around marketing and selling investments, including a focus on pushing more demand through our existing SmileShop network and Partner Network, comprised of affiliated dentist offices, and leveraging our referrals, aided awareness, and customer acquisition strategies. We also intend to continue to develop a suite of ancillary products for our members' oral care needs, lengthening our relationship with our members and enhancing our recurring revenue base. As part of these key investment initiatives, we will also continue to explore collaborations with retailers and other third-party partnerships as a component of our strategy.

Pace of adoption for teledentistry

The rate of adoption of teledentistry will impact our ability to acquire new customers and grow our revenue.

Components of Operating Results

Revenues

Our revenues are derived primarily from sales of aligners, impression kits, whitening gel, retainers, and other oral care products, as well as interest earned on SmilePay. Revenues are recorded based on the amount that is expected to be collected, which considers implicit price concessions, discounts, and cancellations and refunds from customer returns. Revenues include revenue recognized from orders shipped in the current period, as well as deferred revenue recognized from orders in prior periods. We offer our members the option of paying the entire cost of their clear aligner treatment upfront or enrolling in *SmilePay*, our convenient monthly payment plan requiring a down payment and a monthly payment for up to 26 months.

Financing revenue includes interest earned on SmilePay aligner orders shipped in prior periods. Our average APR is approximately 20%, which is included in the monthly payment.

Cost of revenues

Cost of revenues includes the total cost of products produced and sold. Such costs include direct materials, direct labor, overhead costs (occupancy costs, indirect labor, and depreciation), fees retained by doctors, freight and duty expenses associated with moving materials from vendors to our facilities and from our facilities to our members, and adjustments for shrinkage (physical inventory losses), lower of cost or net realizable value, slow moving product, and excess inventory quantities.

We manufacture all of our aligners and retainers in our manufacturing facilities. We continue to invest in automating our manufacturing and treatment planning operations, launching our second-generation manufacturing at the end of the third quarter of 2020, which has contributed to increased efficiencies in our manufacturing process and increased margins. We have built extensive supply chain mechanisms that allow us to quickly and accurately create treatment plans and manufacture aligners.

Marketing and selling expenses

Our marketing expenses include costs associated with an omni-channel approach supported by mixed media marketing (“MMM”). These costs include online sources, such as social media and paid search, and offline sources, such as television, experiential events, local events, and business-to-business partnerships. We also have comprehensive strategies across search engine optimization, customer relationship management (“CRM”) marketing, and earned and owned marketing. We have invested significant resources into optimizing our member conversion process.

Our selling costs include both labor and non-labor expenses associated with our SmileShops, Partner Network, and popup locations and costs associated with our sales and scheduling teams in our customer contact center. Non-labor costs associated with our SmileShops and popup locations include rent, travel, supplies, and depreciation costs associated with digital photography equipment, furniture, and computers, among other costs.

General and administrative expenses

General and administrative expenses include payroll and benefit costs for corporate team members, equity-based compensation expenses, occupancy costs of corporate facilities, bank charges and costs associated with credit and debit card interchange fees, outside service fees, and other administrative costs, such as computer maintenance, supplies, travel, and lodging.

Interest and other expenses

Interest expense includes interest from our financing agreements and other long-term indebtedness. Other expense includes unrealized gains and losses on currency translation adjustments related to certain intercompany loan agreements between legal entities, disposal of long-lived assets, and other non-operating gains and losses.

Provision for income tax expense (benefit)

We are subject to U.S. federal, state, and local income taxes with respect to our allocable share of any taxable income of SDC Financial, and we are taxed at the prevailing corporate tax rates. In addition to tax expenses, we also incur tax expenses related to our operations, as well as payments under the Tax Receivable Agreement. We receive a portion of any distributions made by SDC Financial. Any cash received from such distributions from our subsidiaries will first be used by us to satisfy any tax liability and then to make any payments required under the Tax Receivable Agreement. See Note 8 to our interim condensed consolidated financial statements.

Adjusted EBITDA

To supplement our interim condensed consolidated financial statements presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”), we also present Adjusted EBITDA, a financial measure which is not based on any standardized methodology prescribed by GAAP.

We define Adjusted EBITDA as net loss, plus depreciation and amortization, interest expense, income tax expense (benefit), equity-based compensation, loss on extinguishment of debt, impairment of long-lived assets, abandonment and other related charges and certain other non-operating expenses, such as one-time store closure costs associated with our real estate repositioning strategy, severance, retention and other labor costs, certain one-time legal settlement costs, and unrealized foreign currency adjustments. Adjusted EBITDA does not have a definition under GAAP, and our definition of Adjusted EBITDA may not be the same as, or comparable to, similarly titled measures used by other companies. We use Adjusted EBITDA when evaluating our performance when we believe that certain items are not indicative of operating performance. Adjusted EBITDA provides useful supplemental information to management regarding our operating performance, and we believe it will provide the same to members/stockholders.

We believe that Adjusted EBITDA will provide useful information to members/stockholders about our performance, financial condition, and results of operations for the following reasons: (i) Adjusted EBITDA is among the measures used by our management team to evaluate our operating performance and make day-to-day operating decisions and (ii) Adjusted EBITDA is frequently used by securities analysts, investors, lenders, and other interested parties as a common performance measure to compare results or estimate valuations across companies in our industry. Adjusted EBITDA should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. A reconciliation of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure, is set forth below.

Results of Operations

The following table summarizes our historical results of operations. The period-over-period comparison of results of operations is not necessarily indicative of results for future periods, and the results for any interim period are not necessarily indicative of the operating results to be expected for the full fiscal year. You should read this discussion of our results of operations in conjunction with our interim condensed consolidated financial statements and related notes thereto included elsewhere in this Form 10-Q.

(in thousands)	**Three Months Ended March 31,**	
	2023	**2022**
Statements of Operations Data:		
Total revenues	$ 119,777	$ 151,646
Cost of revenues	32,892	43,066
Gross profit	86,885	108,580
Marketing and selling expenses	72,201	96,711
General and administrative expenses	65,164	70,793
Lease abandonment and impairment of long-lived assets	947	1,232
Restructuring and other related costs	7,754	11,532
Loss from operations	(59,181)	(71,688)
Total interest expense	7,709	1,556
Other expense (income)	(1,484)	1,423
Net loss before provision for income tax expense (benefit)	(65,406)	(74,667)
Provision for income tax expense (benefit)	321	(1,463)
Net loss	(65,727)	(73,204)
Net loss attributable to non-controlling interest	(44,308)	(50,623)
Net loss attributable to SDC Inc.	$ (21,419)	$ (22,581)
Other Data:		
Adjusted EBITDA	$ (26,471)	$ (34,441)

The following table reconciles Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

(in thousands)	Three Months Ended March 31,	
	2023	2022
Net loss	$ (65,727)	$ (73,204)
Depreciation and amortization	15,873	18,916
Total interest expense	7,709	1,556
Income tax expense (benefit)	321	(1,463)
Lease abandonment and impairment of long-lived assets	947	1,232
Restructuring and other related costs	7,754	11,532
Equity-based compensation	6,630	5,306
Other non-operating general and administrative losses	22	1,684
Adjusted EBITDA	$ (26,471)	$ (34,441)

Comparison of the three months ended March 31, 2023 and 2022

Revenues

Revenues decreased $31.9 million, or 21.0%, to $119.8 million in the three months ended March 31, 2023 from $151.6 million in the three months ended March 31, 2022. The decrease in revenues was primarily driven by decreased aligner shipments compared to the prior year period as a result of the negative macroeconomic factors impacting our core demographic, including lower discretionary spending and a challenging economic environment impacted by increased inflation.

For the three months ended March 31, 2023 and 2022, revenues for the U.S. and Canada were approximately $99.3 million and $129.0 million, or 82.9% and 85.1% of total revenues, respectively, and revenues for the rest of world were approximately $20.5 million and $22.6 million, or 17.1% and 14.9%, respectively.

Cost of revenues

Cost of revenues decreased $10.2 million, or 23.6%, to $32.9 million in the three months ended March 31, 2023 from $43.1 million in the three months ended March 31, 2022. Cost of revenues decreased as a percentage of revenues from 28.4% in the three months ended March 31, 2022 to 27.5% in the three months ended March 31, 2023, primarily due to increased efficiency in our manufacturing process as a result of the cost control measures put in place at the beginning of the year when compared to the prior year. The decrease in overall cost of revenues in the current year as compared to the prior year is primarily due to producing a lower number of aligners in the current year.

Gross margin increased to 72.5% in the three months ended March 31, 2023 from 71.6% in the three months ended March 31, 2022, primarily as a result of the factors described above.

Marketing and selling expenses

Marketing and selling expenses as a percentage of revenues decreased to 60.3% in the three months ended March 31, 2023 from 63.8% in the three months ended March 31, 2022, and decreased to $72.2 million in the three months ended March 31, 2023 from $96.7 million in the three months ended March 31, 2022. The decrease in marketing and selling expense as a percentage of sales was primarily due to higher marketing efficiencies and cost control measures put in place at the beginning of the year. Total marketing and selling expenses decreased by $24.5 million compared to the prior year due to the Company's increased focus on efficiency and cost control.

General and administrative expenses

General and administrative expenses decreased $5.6 million, or 8.0%, to $65.2 million in the three months ended March 31, 2023 from $70.8 million in the three months ended March 31, 2022. The decrease was primarily due to lower personnel and support costs resulting from restructuring and cost control activities we have undertaken since the first quarter of 2023. General and administrative expenses as a percent of revenue increased from 46.7% in the three months ended March 31, 2022 to 54.4% in the three months ended March 31, 2023, primarily due to the deleveraging of fixed costs associated with the decrease in sales.

Lease abandonment, impairment of long-lived assets and restructuring and other related costs

Lease abandonment, impairment of long-lived assets, store closure and other related costs were $8.7 million for the three months ended March 31, 2023, compared to $12.8 million for the three months ended March 31, 2022. The charges in the current year quarter are primarily associated with the realignment of our operating programs and global workforce to further hone focus on our core business and technology enabled innovation portfolio and introduce additional cost savings to the Company's operating plan in order to enable growth and sustainable positive cash flow. The costs associated with the strategic actions explained above that the Company undertook in January 2023, include lease abandonment and impairment of long-lived assets of $0.9 million and $7.8 million for restructuring and other related costs primarily made up of employee costs, including severance, and costs associated with suspending operations in certain international countries. In the three months ended March 31, 2022, lease abandonment and impairment of long-lived asset costs were $1.2 million and restructuring and other related costs were $11.6 million which include lease buyouts, regional operating center and SmileShop closure costs and employee related costs, including severance and retention payments associated with the organizational changes.

Interest expense

Interest expense increased $6.2 million to $7.7 million in the three months ended March 31, 2023 from $1.6 million in the three months ended March 31, 2022, primarily as a result of borrowings on our 2022 HPS Credit Facility.

Other expense (income)

Other expense (income) decreased $2.9 million to $1.5 million in the three months ended March 31, 2023 from expense of $1.4 million in the three months ended March 31, 2022. The decrease in expense was primarily due to the impact of unrealized foreign currency translation adjustments.

Provision for income tax expense (benefit)

Our provision for income tax expense was $0.3 million for the three months ended March 31, 2023 and our income tax benefit was $1.5 million for the three months ended March 31, 2022. The change in expense in the current year compared to the prior year is primarily associated with return to provision adjustments recorded in the first quarter of 2022.

Adjusted EBITDA

For the three months ended March 31, 2023, Adjusted EBITDA was negative $26.5 million compared to negative $34.4 million for the three months ended March 31, 2022. The improvement in Adjusted EBITDA was primarily due to an increase in marketing and selling efficiency and cost control initiatives put in place since the first quarter of fiscal 2022. These initiatives have helped offset the decrease in aligner revenue as a result of the effects of the macroeconomic factors discussed previously. For the three months ended March 31, 2023, Adjusted EBITDA for the U.S. and Canada combined was a negative $14.5 million, and Adjusted EBITDA for the rest of world for the three months ended March 31, 2023 was negative $12.0 million.

Liquidity and Capital Resources

As of March 31, 2023, SDC Inc. had cash on hand of $86.3 million including $27.1 million in restricted cash, an accumulated deficit of $403.1 million and had working capital of $139.3 million. Our operations have been financed primarily through net proceeds from the sale of our equity securities and borrowings under our debt instruments.

Our short-term liquidity needs primarily include working capital, innovation, and research and development. We believe that our current liquidity, including net proceeds received in connection with the financing transactions, will be sufficient to meet our projected operating, investing, and debt service requirements for at least the next 12 months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our levels of revenue, the expansion of sales and marketing activities, market acceptance of our clear aligners, the results of research and development and other business initiatives, the timing of new product introductions, and overall economic conditions. To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of additional debt financing would result in debt service obligations, and any future instruments governing such debt could provide for operating and financing covenants that would restrict our operations. In February 2021, we issued approximately $650.0 million aggregate principal amount of convertible senior Notes in a private placement offering. We also issued an additional $97.5 million aggregate principal amount of the Notes to the initial purchasers under an option granted to the initial purchasers. The proceeds of this offering were used by us to enter into privately negotiated capped call transactions with certain of the initial purchasers, which are expected to reduce dilution to the Class A common stock upon any conversion of the Notes, and we used a portion of the remainder of the net proceeds to repay amounts owed under the HPS Credit Facility. In connection with the issuance of the Notes, SmileDirectClub, Inc. entered into an intercompany convertible promissory note ("Intercompany Convertible Note") with SDC Financial, LLC, whereby SmileDirectClub, Inc. provided the net proceeds from the issuance of the Notes to SDC Financial, LLC. The terms of the Intercompany Convertible Note mirror the terms of the Notes issued by SmileDirectClub, Inc. The intent of the Intercompany Convertible Note is to maintain the parity of shares of Class A common stock with LLC Units as required by the SDC Financial LLC Agreement. On April 27, 2022, SPV, a wholly-owned special purpose subsidiary of the Company, entered into a Loan Agreement ("the 2022 HPS Credit Facility") by and among SPV, as borrower, SmileDirectClub, LLC, as the seller and servicer, the lenders from time to time party thereto, and HPS Investment Partners, LLC, as administrative agent and collateral agent, providing a 42-month secured delayed-draw term loan facility to SPV in an aggregate maximum principal amount of up to $255 million. As of March 31, 2023, the outstanding balance on the 2022 HPS Credit Facility was $135.6 million. The permitted loan balance was $142.9 million based on the underlying accounts receivable balances. Amounts drawn, up to $255 million, but in excess of the permitted loan balance are required to be kept in the SDC U.S. SmilePay SPV and are restricted. The Company was in compliance with all covenants related to the 2022 HPS Credit Facility as of March 31, 2023.

On November 7, 2022, we entered into a distribution agreement with UBS Securities LLC, with respect to an at -the-market offering program under which the Company may, from time to time, offer and sell shares of the Company's Class A common stock having an aggregate offering price of up to $100.0 million. The shares to be sold, if any, will be issued and sold pursuant to the Company's shelf registration statement on Form S-3 (File No. 333-267370), which was filed with the Securities and Exchange Commission on September 9, 2022, and which was declared effective on October 4, 2022. As of March 31, 2023, the Company sold $2.8 million of Class A common stock pursuant to the distribution agreement and has $97.2 million available.

We are a holding company with no operations of our own and, as such, we depend on our subsidiaries for cash to fund all of our operations and expenses. We depend on the payment of distributions by our subsidiaries, and such distributions may be restricted as a result of regulatory restrictions, state and international laws regarding distributions, or contractual agreements, including agreements governing indebtedness. For a discussion of those restrictions, see "*Risk Factors—Risks Related to Our Organization and Structure—We are a holding company. Our sole material asset is our equity interest in SDC Financial, and as such, we depend on our subsidiaries for cash to fund all of our expenses, including taxes and payments under the Tax Receivable Agreement*" included in our Annual Report on Form 10-K for the year ended December 31, 2022. We currently anticipate that such restrictions will not impact our ability to meet our cash obligations.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated.

(in thousands)	Three Months Ended March 31,	
	2023	2022
Net cash used in operating activities	$ (32,577)	$ (61,264)
Net cash used in investing activities	(8,041)	(15,118)
Net cash provided by (used in) financing activities	8,438	(3,689)
Effect of exchange rates change on cash flow activities	36	(42)
Decrease in cash and restricted cash	(32,144)	(80,113)
Cash and restricted cash at beginning of period	118,398	224,860
Cash and restricted cash at end of period	$ 86,254	$ 144,747

Comparison of the three months ended March 31, 2023 and 2022

As of March 31, 2023, we had $86.3 million in cash and restricted cash, a decrease of $58.5 million compared to $144.7 million as of March 31, 2022.

Cash used in operating activities decreased to $32.6 million during the three months ended March 31, 2023 compared to $61.3 million in the three months ended March 31, 2022, or a decrease of $28.7 million, primarily due to the improvement in net loss during the period when adjusted for non-cash items, and an improvement in working capital usage, primarily accounts payable due to the timing of payment during the quarter when compared to the prior year.

Cash used in investing activities decreased to $8.0 million during the three months ended March 31, 2023, compared to $15.1 million in the three months ended March 31, 2022. The decrease in cash used in investing was primarily due to cost reduction activities including a more focused investment portfolio on near-term profit projects. Cash used in investing activities primarily consists of purchases of manufacturing automation equipment and investments in technology equipment and software.

Cash provided by financing activities was $8.4 million during the three months ended March 31, 2023, compared to cash used in financing activities of $3.7 million in the three months ended March 31, 2022. Cash provided by financing activities during the three months ended March 31, 2023 primarily consists of net borrowings under our long-term debt facility of $8 million.

Tax Receivable Agreement

Our purchase of LLC Units from SDC Financial, coupled with SDC Financial's purchase and cancellation of LLC Units from the Pre-IPO investors in connection with the IPO and any future exchanges of LLC Units for our Class A common stock or cash are expected to result in increases in our allocable tax basis in the assets of SDC Financial that otherwise would not have been available to us. These increases in tax basis are expected to provide us with certain tax benefits that can reduce the amount of cash tax that we otherwise would be required to pay in the future. We and SDC Financial are parties to the Tax Receivable Agreement with the Continuing LLC Members, pursuant to which we are obligated to pay the Continuing LLC Members 85% of the cash savings, if any, in U.S. federal, state, and local income tax or franchise tax that we actually realize as a result of (a) the increases in tax basis attributable to exchanges by Continuing LLC Members and (b) tax benefits related to imputed interest deemed to be paid by us as a result of the Tax Receivable Agreement. The amounts to be recorded for both the deferred tax assets and the liability for our obligations under the Tax Receivable Agreement will be estimated at the time of an exchange of LLC Units. All of the effects of changes in any of our estimates after the date of the exchange will be included in net loss. Similarly, the effect of subsequent changes in the enacted tax rates will be included in net loss. Because we are the managing member of SDC Financial, which is the managing member of SDC LLC, which is the managing member of SDC Holding, we have the ability to determine when distributions (other than tax distributions) will be made by SDC Holding to SDC LLC and by SDC LLC to SDC Financial and the amount of any such distributions, subject to limitations imposed by applicable law and contractual restrictions (including pursuant to our debt instruments). Any such distributions will then be distributed to all holders of LLC Units, including us, pro rata based on holdings of LLC Units. The cash received from such distributions will first be used by us to satisfy any tax liability and then to make any payments required under the Tax Receivable Agreement. We expect that such distributions will be sufficient to fund both our tax liability and the required payments under the Tax Receivable Agreement.

Indebtedness

2022 HPS Credit Facility

On April 27, 2022, SPV, a wholly-owned special purpose subsidiary of the Company, entered into a Loan Agreement (the “2022 HPS Credit Facility”) by and among SPV, as borrower, SmileDirectClub, LLC, as the seller and servicer, the lenders from time to time party thereto, and HPS Investment Partners, LLC, as administrative agent and collateral agent, providing a 42-month secured delayed-draw term loan facility to SPV in an aggregate maximum principal amount of up to $255 million.

Outstanding loans under the 2022 HPS Credit Facility bear interest at a variable rate equal to (i) subject to a 1.00% per annum floor, three-month LIBOR plus 10.75% per annum, of which interest accrued at up to 3.75% per annum may be payable in kind, or (ii) subject to a 2.00% per annum floor, an interest rate equal to the greater of (a) the prime rate in effect from time to time and (b) the federal funds rate in effect from time to time plus 0.5%, plus in each case 9.75% per annum, of which, in each of the foregoing cases, interest accrued at up to 3.75% per annum may be payable in kind. In addition to paying interest on the outstanding principal balance, the Company is required to pay lender’s commitment fee of 2.75% per annum based on the unused facility amount. Subject to certain exceptions, the 2022 HPS Credit Facility is secured by first-priority security interests in SPV’s assets, which consist of certain receivables, cash, intellectual property and related assets. SPV’s obligations under the 2022 HPS Credit Facility are guaranteed on a limited basis by SmileDirectClub, LLC and SDC Financial LLC (collectively, the “Guarantors”). The Guarantors guarantee (i) on a full recourse basis, up to 10% of SPV’s outstanding obligations under the 2022 HPS Credit Facility plus enforcement costs, and (ii) certain losses incurred by the lenders as a result of fraud, misrepresentation, legal and regulation violations and certain other actions and omissions by SPV and/or certain of its affiliates. The Guarantors do not pledge their assets to secure any obligations of SPV under the 2022 HPS Credit Facility. As of March 31, 2023, the outstanding balance on the 2022 HPS Credit Facility was $135.6 million. The permitted loan balance was $142.9 million based on the underlying accounts receivable balances. Amounts drawn, up to $255 million, but in excess of the permitted loan balance are required to be kept in the SDC U.S. SmilePay SPV and are restricted. The Company was in compliance with all covenants related to the 2022 HPS Credit Facility as of March 31, 2023.

2026 Convertible Senior Notes

On February 9, 2021 we issued $650.0 million principal amount of Notes and also granted the initial purchasers of the Notes an option to purchase up to an additional $97.5 million aggregate principal amount of the Notes. The sale of the Notes concluded on February 16, 2021, with the initial purchasers exercising their options in full to buy the additional Notes. The Notes were issued and governed by an indenture, dated February 9, 2021 (the “Indenture”), between us and Wilmington Trust, National Association, as trustee. Overall, we incurred $747.5 million principal amount of indebtedness as a result of this offering.

A portion of the proceeds of the offering of the Notes were used to fund the cost of privately negotiated capped call transactions with certain initial purchasers, and we used a portion of the remainder of the net proceeds to repay amounts owed under the 2020 HPS Credit Facility.

The Notes will mature on February 1, 2026, unless earlier repurchased, redeemed or converted. The Notes will not bear regular interest, and the principal amount of the Notes will not accrete.

If certain corporate events that constitute a “Fundamental Change” (as defined in the Indenture) occur or “Events of Default” (as defined in the Indenture) occur, then noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid special interest, if any.

2020 HPS Credit Facility

On May 12, 2020, we and a wholly-owned special purpose subsidiary, SDC U.S. SmilePay SPV (“SPV”), entered into a Loan Agreement (the “2020 HPS Credit Facility”) among SPV, as borrower, SmileDirectClub, LLC, as the seller and servicer, certain lenders, and HPS Investment Partners, LLC, as administrative agent and collateral agent, providing a five-year secured term loan facility to SPV in an initial aggregate maximum principal amount of $400 million, with the ability to request incremental term loans of up to an additional aggregate principal amount of $100 million with the consent of the lenders participating in such increase.

On March 29, 2021, the 2020 HPS Credit Facility was repaid in full.

Tax Receivable Agreement

The payments that we may be required to make under the Tax Receivable Agreement to the Continuing LLC Members may be significant and are dependent upon future taxable income.

Critical Accounting Policies and Estimates

We have adopted various accounting policies to prepare the interim condensed consolidated financial statements in accordance with GAAP. Certain of our accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates. In our 2022 Annual Report on Form 10-K, we identified the critical accounting policies which affect our more significant estimates and assumptions used in preparing our consolidated financial statements.

There have been no material changes to our critical accounting policies and estimates from those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk during the quarter ended March 31, 2023. For additional information, refer to our Annual Report on Form 10-K for the year ended December 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our CEO and CFO have concluded that as of March 31, 2023, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

See Note 16 to our interim condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022. There were no significant changes in the Company's risk factors during the quarter ended March 31, 2023*. However, the risks and uncertainties we face are not limited to those described in our Annual Report on Form 10-K. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial may also adversely affect our business.*

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit Index

		Incorporated by Reference			
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date
10.12*	Summary of SmileDirectClub, Inc. Compensation for Non-Employee and Non-Affiliated Directors				
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1*†	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS*	XBRL Instance Document				
101.SCH*	XBRL Taxonomy Extension Schema Document				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith.

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

	SMILEDIRECTCLUB, INC.
	(Registrant)
May 9, 2023	*/s/ David Katzman*
Date	David Katzman Chief Executive Officer and Director (Principal Executive Officer)
May 9, 2023	*/s/ Troy Crawford*
Date	Troy Crawford Chief Financial Officer (Principal Financial and Accounting Officer)

Summary of SmileDirectClub, Inc.
Compensation for Non-Employee and Non-Affiliated Directors
(as of April 6, 2023)

Non-employee and non-affiliated directors of SmileDirectClub, Inc. (the "Company") will receive compensation for their service as follows:

- Each non-employee and non-affiliated director of the Company is eligible to receive an annual grant of restricted stock units ("RSUs"), with a grant date fair value of $300,000 (except that the 2023 grant will be valued at $1.45 per RSU), on the date of the Company’s annual meeting date each year, which grant will vest on the earlier of June 1 of the following year or the day before the date of the Company's annual meeting of stockholders for the following year (such earlier date, the "Vesting Date"), subject to the director's continued service on the Company's board of directors ("Board") through the Vesting Date.

- Each new non-employee and non-affiliated director of the Company will receive a prorated initial grant of RSUs upon joining the Board to be determined based on the annual grant value by (i) multiplying the number of months remaining following the date of grant, including the onboarding month, through the Vesting Date, by the value of the annual grant, and (ii) dividing by 12, which grant will vest on the Vesting Date, subject to the director's continued service on the Board through the Vesting Date.

- Non-employee and non-affiliated directors of the Company may elect to receive their annual RSU grant in the form of a restricted stock award, in lieu of RSUs, with the same value and vesting terms as the RSU grants.

The RSU awards (or restricted stock awards, as the case may be) are also subject to full vesting acceleration upon a change in control. Each such director is entitled to reimbursement for all out-of-pocket expenses incurred in connection with attending each meeting of the Board and any committee thereof.

Exhibit 31.1

**Management Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, David Katzman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SmileDirectClub, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2023

/s/ David Katzman
David Katzman
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Management Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Troy Crawford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of SmileDirectClub, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Troy Crawford

Date: May 9, 2023

Troy Crawford
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of SmileDirectClub, Inc. (the "Company") for the quarterly period ended March 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David Katzman, as Chief Executive Officer of the Company, and Troy Crawford, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 9, 2023

/s/ David Katzman
David Katzman
Chief Executive Officer
(Principal Executive Officer)

/s/ Troy Crawford
Troy Crawford
Chief Financial Officer
(Principal Financial and Accounting Officer)