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

FORM 10-K

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

For the fiscal year ended December 31, 2019

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 001-36189

Tandem Diabetes Care, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-4327508**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11075 Roselle Street	**92121**
San Diego California	**(Zip Code)**
(Address of principal executive offices)	

(858) 366-6900
Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Symbol**	**Name of Exchange on Which Registered**
Common Stock, par value $0.001 per share	**TNDM**	**NASDAQ Global Market**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐
Indicate by check if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See 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	x	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 Act). Yes ☐ No ☒
As of June 28, 2019, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $3.6 billion based on the closing price for the common stock of $64.52 on that date. Shares of common stock held by each executive officer, director, and their affiliated stockholders have been excluded from this calculation as such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.
As of February 14, 2020, there were 59,726,471 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2020 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference in Part III, Items 10-14 of this Form 10-K. Except for the portions of the Proxy Statement specifically incorporated by reference in this Form 10-K, the Proxy Statement shall not be deemed to be filed as part hereof.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K for the fiscal year ended December 31, 2019, or this Annual Report, contains "forward-looking statements" within the meaning of the federal securities laws, which statements are subject to considerable risks and uncertainties. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. All statements included or incorporated by reference in this Annual Report, other than statements of historical fact, are forward-looking statements. You can identify forward-looking statements by the use of words such as "may," "will," "could," "anticipate," "expect," "intend," "believe," "continue" or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to such statements. In particular, forward-looking statements contained in this Annual Report relate to, among other things, our future or assumed financial condition, results of operations, liquidity, trends impacting our financial results, business forecasts and plans, research and product development plans, manufacturing plans, strategic plans and objectives, capital needs and financing plans, product launches, regulatory approvals, the impact of changes in the competitive environment, and the application of accounting guidance. We caution you that the foregoing list may not include all of the forward-looking statements made in this Annual Report.

Our forward-looking statements are based on our management's current assumptions and expectations about future events and trends, which affect or may affect our business, strategy, operations or financial performance. Although we believe that these forward-looking statements are based upon reasonable assumptions, they are subject to numerous known and unknown risks and uncertainties and are made in light of information currently available to us. Our actual financial condition and results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the caption "Risk Factors" in Part I, Item 1A and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7, and elsewhere in this Annual Report, as well as in the other reports we file with the Securities and Exchange Commission, or the SEC. You should read this Annual Report with the understanding that our actual future results may be materially different from and worse than what we expect.

Moreover, we operate in an evolving environment. New risk factors and uncertainties emerge from time to time and it is not possible for our management to predict all risk factors and uncertainties, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Forward-looking statements speak only as of the date they were made, and, except to the extent required by law or the rules of the NASDAQ Global Market, we undertake no obligation to update or review any forward-looking statement because of new information, future events or other factors.

We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. Business

Overview

We are a medical device company with an innovative approach to the design, development and commercialization of products for people with insulin-dependent diabetes. Our goal is to lead in insulin therapy management by building a robust ecosystem and portfolio of data-driven products and services around our flagship insulin pumps. We believe our competitive advantage is rooted in our consumer-focused approach, and the incorporation of modern and innovative technology into our product offerings. Our manufacturing, sales and support activities principally focus on our flagship pump platform, the t:slim X2 Insulin Delivery System (t:slim X2), and our complementary product offerings. The simple-to-use t:slim X2 is based on our proprietary technology platform and is the smallest durable insulin pump available. It is the only pump currently available in the United States that is capable of remote feature updates, which positions us well to address the evolving needs and preferences of differentiated segments of the insulin-dependent diabetes market. We aim to improve and simplify the lives of people with diabetes and those of their healthcare providers, by delivering innovative hardware and software solutions, as well as best-in-class customer support.

Since our initial commercial launch, we have been able to rapidly innovate and bring more products to market than our competitors. We have commercially launched seven insulin pumps in the United States since 2012 and two pumps outside the United States since 2018. Four of our insulin pumps have featured integration with continuous glucose monitoring (CGM) technology, and two have featured an automated insulin delivery (AID) algorithm. We believe that the three new classifications defined by the United States Food and Drug Administration (FDA) for the interoperability of devices for AID will help support continued rapid innovation by streamlining the regulatory pathway for integrated products. In June 2018, the t:slim X2 was the first insulin pump designated as compatible with integrated continuous glucose monitoring (known as iCGM) devices; in February 2019, the t:slim X2 was the first in a new device category called Alternate Controller Enabled Infusion Pumps (ACE pumps); and in December 2019, Control-IQ technology for the t:slim X2 insulin pump was the first automated insulin dosing software in a new interoperable automated glycemic controller category.

Today, our t:slim X2 hardware platform represents 100% of our new pump shipments. It is the only commercial insulin pump that allows users to update their pumps' software quickly and easily from a personal computer. We have offered in-warranty t:slim customers in the United States four different software updates for no-cost using the Tandem Device Updater, including our two AID algorithms, Basal-IQ technology and Control-IQ technology. Basal-IQ technology launched in August 2018 and is a predictive low glucose suspend feature that is designed to temporarily suspend insulin delivery to help reduce the frequency and duration of hypoglycemic events. Control-IQ technology launched in January 2020 and is an advanced hybrid-closed loop feature, designed to help increase a user's time in targeted glycemic range. It is the first and only system cleared to deliver automatic correction boluses in addition to adjusting insulin to help prevent high and low blood sugar. Outside the United States we began selling efforts with t:slim X2 with Dexcom G5 integration in the third quarter of 2018, offering no-cost software updates for Basal-IQ technology in the third quarter of 2019, and intend to begin offering Control-IQ technology updates in select geographies in the second half of 2020.

Our insulin pump products are generally considered durable medical equipment and have an expected lifespan of at least four years. In addition to insulin pumps, we sell disposable products that are used together with our pumps and are replaced every few days, including cartridges for storing and delivering insulin, and infusion sets that connect the insulin pump to a user's body.

In the four-year period ended December 31, 2019, we shipped approximately 142,000 insulin pumps, which is representative of our estimated global installed customer base on the typical four-year reimbursement cycle. Approximately 118,000 of these pumps were shipped to customers in the United States and approximately 24,000 were shipped to international markets.

For the years ended December 31, 2019, 2018 and 2017, our consolidated sales were $362.3 million, $183.9 million, and $107.6 million, respectively. For the years ended December 31, 2019, 2018 and 2017, our net loss was $24.8 million, $122.6 million, and $73.0 million, respectively. Worldwide pump sales accounted for 68%, 67%, and 66% of our total sales, respectively, for the years ended December 31, 2019, 2018 and 2017, while pump-related supplies and accessories accounted for the remainder in each year. Our accumulated deficit as of December 31, 2019 and December 31, 2018 was $624.8 million and $600.1 million, respectively. This included $216.6 million and $147.4 million of non-cash stock-based compensation charges and non-cash changes in the fair value of common stock warrants as of December 31, 2019 and 2018, respectively.

Our headquarters and our manufacturing facility are located in San Diego, California. We also have an office in Boise, Idaho. We employed 1,043 full-time employees as of December 31, 2019.

Diabetes and the Insulin Therapy Management Market

Diabetes is a chronic, life-threatening disease for which there is no known cure. The disease is categorized by improper function of the pancreas when it either does not produce enough insulin or the body cannot effectively use the insulin it produces. If not closely monitored and properly treated, diabetes can lead to serious medical complications, including damage to various tissues and organs, seizures, coma and death.

Diabetes is typically classified as either type 1 or type 2:

- Type 1 diabetes is characterized by the body's nearly complete inability to produce insulin. It is frequently diagnosed during childhood or adolescence. Individuals with type 1 diabetes require daily insulin therapy to survive.
- Type 2 diabetes represents 90% to 95% of all individuals diagnosed with diabetes and is characterized by the body's inability to either properly utilize insulin or produce enough insulin. Initially, many people with type 2 diabetes attempt to manage their diabetes with improvements in diet, exercise and oral medications. However, as their diabetes advances, some patients progress to requiring injectable therapies, such as long-acting insulin, and a subset of this population will require daily rapid-acting insulin therapy.

The International Diabetes Federation estimates that 463 million people have diabetes worldwide, approximately half of which are undiagnosed. In the United States, the Centers for Disease Control and Prevention estimates that in 2018 approximately 34 million people were living with diabetes of which approximately 27 million had diagnosed diabetes. We consider our addressable market to be people diagnosed with diabetes who are living with either type 1 diabetes, or with type 2 diabetes who require daily rapid acting insulin. Throughout this Annual Report, we refer to these individuals as people with insulin-dependent diabetes.

Estimated Diagnosed Diabetes Prevalence[(1)]

	Worldwide	Domestic
Type 1	24.2 million	1.6 million
Type 2 (all therapies)	206.8 million	25.4 million
Type 2 (insulin only)	*5 million*	*1.5 million*

(1) Internal estimates based on data from the International Diabetes Federation and the Centers for Disease Control and Prevention (CDC)

Diabetes Management Challenges

Diabetes can be difficult for patients to manage. Unlike most therapies, daily insulin requirements can vary greatly and can be affected by many factors, such as type or quantity of food eaten, illness, stress and exercise. People with diabetes have to be diligent in working to prevent their blood glucose from fluctuating outside of a targeted range. Hypoglycemia, or low blood glucose levels, can cause a variety of long-term effects or complications, including damage to various tissues and organs, seizures, coma or death. Hyperglycemia, or high blood glucose levels, can also cause a variety of long-term effects or complications, including cardiovascular disease and damage to various tissues and organs. Preventing and managing fluctuations in blood glucose levels, particularly when someone is outside their target blood glucose range is often time consuming and stressful to people with diabetes and their loved ones.

Insulin Therapy Management

There are two primary therapies used by people with insulin-dependent diabetes, insulin injections and insulin pumps. The use of insulin injections is often referred to as Multiple Daily Injection, or MDI, therapy. Insulin pumps are intended to more closely resemble the physiologic function of a healthy pancreas and use rapid-acting insulin to fulfill both mealtime (bolus) and background (basal) requirements. Insulin pump systems are most commonly comprised of a programmable hardware device, a cartridge filled with insulin by the user, and an infusion set to administer insulin into the person's body. This system is known as a durable pump. By comparison, patch insulin pumps are disposable and adhere to the body without an infusion set.

Insulin pump therapy can provide benefit to a person with insulin-dependent diabetes when used independently or in conjunction with CGM, which is a therapy that provides users with real-time access to their glucose levels as well as trend information. In addition, insulin pumps may feature an AID algorithm that is designed to automatically adjust a person's insulin delivery based on their CGM trends and other factors to help minimize the frequency and/or duration of hypoglycemia and/or hyperglycemic events. Insulin pumps may also feature connectivity with mobile apps and data management applications, which are used by the pump user, their caregivers and their healthcare providers, to quickly and easily identify meaningful insights and trends, allowing them to refine therapy and lifestyle choices for better management of their diabetes.

The American Diabetes Association estimated that in 2015, between 750,000 and 1 million people worldwide used an insulin pump. Domestically, we estimate that 600,000 people in the United States use an insulin pump. There are a variety of insulin pump manufacturers worldwide, while domestically, we are currently one of only two commercial durable insulin pump manufacturers and there is one programmable commercial patch insulin pump manufacturer.

We believe that the distinct advantages and increased awareness of insulin pump therapy as compared to other available insulin therapies will continue to generate demand for insulin pump devices and pump-related supplies. We further believe that recent and ongoing developments in the use of CGM technology and AID algorithms in conjunction with insulin pump therapy will continue to provide people with insulin-dependent diabetes benefits that will make insulin pump therapy an even more attractive treatment alternative.

Our Technology: Improving the Lives of People with Diabetes

We develop our insulin pump technology and related product offerings using a consumer-focused approach. We initially rely on the use of behavioral sciences, including extensive research to ascertain what people with insulin-dependent diabetes require and prefer from their diabetes therapy. We then look to modern consumer technology for inspiration and design our hardware and software solutions to meet the specific demands of people with diabetes. This multi-step approach has resulted in products that provide users with the distinct features and functionality they seek and in a manner that makes the features usable and intuitive.

Since our initial commercial launch, we have been able to rapidly innovate and bring more products to market than our competitors. We have commercially launched seven insulin pumps since inception, all of which have been developed using our proprietary technology platform. The following table provides information regarding the commercial availability of our insulin pump products:

Product	U.S. Commercial Availability	OUS Commercial Availability
t:slim	August 2012 - October 2016	N/A
t:flex	May 2015 - June 2018	N/A
t:slim G4	September 2015 - August 2017	N/A
t:slim X2	October 2016 - September 2017	N/A
t:slim X2 with G5	September 2017 - August 2018	September 2018 - present (varies by geography)
t:slim X2 with Basal-IQ technology	August 2018 - present	September 2019 - present (varies by geography)
t:slim X2 with Control-IQ technology	January 2020 - present	Launch goal: 2H 2020* (to vary by geography)

*Subject to regulatory approvals and other factors

Today, our commercial efforts exclusively focus on the manufacturing, sale and support of our flagship pump platform, the t:slim X2 insulin delivery system, but we continue to provide ongoing service and support to existing t:slim, t:slim G4 and t:flex customers. The t:slim X2 insulin delivery system is comprised of a t:slim X2 pump, its 300-unit disposable insulin cartridge and an infusion set. It is also the only commercially available insulin pump featuring optional integration with Dexcom's CGM.

Our t:slim X2 Insulin Pump Form Factor (Actual Size)

t:slim X2 Insulin Pump: Our t:slim X2 was designed to offer greater ease of use and look more like other modern consumer technology, such as a smart phone, as compared to other traditional insulin pumps. Key features include:

- Color touchscreen - The large color touchscreen is easy to read, simple to learn, and intuitive to use for anyone familiar with a smartphone or tablet.
- Small and discreet - The t:slim X2 pump is up to 38 percent smaller than other pumps, yet can hold up to 300-units of insulin.

t:slim X2 Profile (Actual Size)

- Flexible technology - Can be used with or without automated insulin delivery or CGM - When advanced features are turned off, the t:slim X2 pump removes the CGM chart from the screen and puts the Bolus and Option buttons front and center for easy access. We currently offer integration with Dexcom's G5 or G6 sensor, depending on geography.
- AID features (availability varies by geography) - We have commercially launched two different AID algorithms on our t:slim X2 platform - Basal-IQ technology and Control-IQ technology.
    - Basal-IQ technology: This predictive low glucose suspend feature is designed to temporarily suspend insulin delivery to help reduce the frequency and duration of hypoglycemic events. With Dexcom G6 CGM integration, this feature works with no fingersticks required for mealtime dosing or calibration.
    - Control-IQ technology: This advanced hybrid-closed loop feature is designed to help increase a user's time in targeted glycemic range (70-180 mg/dL). It is the first and only system cleared to deliver automatic correction boluses in addition to adjusting insulin to help prevent high and low blood sugar. Control-IQ technology is integrated with Dexcom's G6 CGM and offers optional settings for sleep and exercise that change the treatment values to better match the different physiological needs during these activities.
- Connectivity - Features a two-way Bluetooth wireless technology radio for communicating with more than one external device at a time. It also features a micro-USB connection that supports charging the lithium-polymer battery, software updates and rapid data uploads.

Tandem Device Updater: A revolutionary tool that allows pump users to update their pumps' software quickly and easily from a personal computer. It is PC- and Mac- compatible and designed to work with the t:slim X2 in a manner similar to software updates on a smartphone. Because remote updatability for insulin pump software is a unique feature not available in competitive pump offerings, the Tandem Device Updater provides our customers with the capability to access new and enhanced features and functionality faster than the industry has been able to in the past. It was cleared by the FDA in the third quarter of 2016 and launched outside the United States in the third quarter of 2019. We have used this technology to offer in-warranty t:slim customers in the United States four different software updates for no-cost, including Basal-IQ technology, and most recently Control-IQ technology. Outside the United States we began offering no-cost software updates for Basal-IQ technology in the third quarter of 2019 and intend to begin offering Control-IQ technology updates in select geographies in the second half of 2020, subject to regulatory approvals and other factors.

t:connect: Our web-based data management application provides users, their caregivers and their healthcare providers with a fast, easy and visual way to display diabetes therapy management data from our pumps and supported blood glucose meters. This application empowers people with diabetes, as well as their caregivers and healthcare providers, to quickly and easily identify meaningful insights and trends, allowing them to refine therapy and lifestyle choices for better management of their diabetes. It also provides us with valuable data that we can analyze computationally to reveal patterns, trends and associations that can be used in continuous product improvements, and identification of clinical outcomes data. t:connect launched in the United States in the third quarter of 2013. In 2017, we launched t:connect HCP, which is an enhanced version of t:connect designed to simplify the ability of pump users to share t:connect data with their healthcare providers. We also plan to launch our new mobile application that when used with Control-IQ technology, is designed to wirelessly upload pump data to t:connect, receive notification of pump alerts and alarms, and provide a discrete, secondary display of glucose and insulin data. We believe t:connect can serve as a key component of additional mobile health applications that are currently under development. t:connect and t:connect HCP are currently not available to users or healthcare providers outside the United States.

Our Strategy

Enabled by our singular focus on diabetes management, our goal is to lead in insulin therapy management by building a robust ecosystem and portfolio of data-driven products and services around our flagship insulin pumps. We believe we are uniquely positioned to significantly expand and further penetrate the insulin-dependent diabetes market by focusing on the needs of our customers and their caregivers, and by supporting healthcare providers and payors with real world insights.

To achieve our goal, we intend to pursue the following business strategies:

- drive worldwide adoption of our products by offering the best insulin delivery systems;
- deliver a portfolio of therapy management solutions designed to improve patient outcomes;
- expand the value provided by our portfolio through an ecosystem approach to diabetes management;
- build deeper relationships with all stakeholders across multiple channels, including virtual and tele-health platforms;
- leverage our manufacturing operations to achieve cost and production efficiencies;
- use data in new ways that deliver real-world insights and that promote better outcomes; and
- identify new offerings that support our mission to improve the lives of people with diabetes.

Products Under Development

Our products under development support our strategy of developing insulin delivery systems as part of a therapy management portfolio designed to improve patient outcomes, and include AID system enhancements, a next-generation hardware platform, and connected (mobile) health offerings.

t:sport Insulin Delivery System: Our Next-Generation Hardware Platform

Our next-generation hardware platform is referred to under its development name, the t:sport Insulin Delivery System, or t:sport. The t:sport pump is half the size of t:slim X2 and is being designed for people who seek even greater discretion and flexibility with the use of their insulin pump. We anticipate that t:sport will feature a 200-unit cartridge, an on-pump bolus button, a rechargeable battery, an AID algorithm, and a Bluetooth radio. t:sport is being designed for use with leading U-100 insulins, and we are evaluating the use of insulin concentrates for people with greater insulin needs. t:sport will utilize a pumping mechanism that differs from our current Micro-Delivery technology used in the t:slim pump platform.

t:sport Shown with Mobile App Controller

Based on the FDA's feedback, we are designing the product so that it will have the technical capability to be controlled using either a dedicated controller or our mobile device application. We expect that each of these functionalities will require separate regulatory reviews by the FDA. We plan to first pursue FDA authorization for t:sport as an ACE pump in 2020 and to thereafter submit for regulatory approvals outside the United States. We are designing t:sport to be compatible with our AID algorithms and any available iCGM.

Connected (Mobile) Health Offerings

We are preparing for the launch of a mobile application that has been designed to wirelessly upload pump data to our t:connect database management application, receive notification of pump alerts and alarms, and provide a discrete, secondary display of pump therapy data. Future updates of this app are expected to integrate other health-related information from third party sources and, subject to future regulatory approvals, support future pump-control capabilities for t:slim X2 and other products under development. The launch of the first generation of this app in the United States follows the availability of our Control-IQ technology. We also expect the wireless upload of data to the t:connect database will reduce patient burden and increase healthcare provider office efficiency by reducing the manual steps historically required for data extraction.

Sales, Marketing and Customer Care

In 2019, we expanded the number of territories in our U.S. sales organization from approximately 70 to approximately 90 by year-end. The vast majority of these territories are supported by a sales representative and a clinical diabetes specialist who, as a team, call on domestic endocrinologists, nurse practitioners, primary care physicians, certified diabetes educators and potential customers. Where appropriate, some territories are supported by multiple clinical diabetes specialists. Our U.S. sales team is augmented by individuals in our internal customer sales support organization, who follow up on leads generated through promotional activities and educate people on the benefits of our proprietary technology and products.

Our internal customer sales support organization also contacts existing customers who are approaching their insurance renewal date to aid in the renewal process. Our goal is for at least 70% of our existing customers to purchase a new pump from us when making their next pump purchasing decision. Typically, domestic customers are eligible for insurance reimbursement to purchase a new insulin pump once every four years; however, some plans may be limited to once every five years or have additional restrictions or requirements. Insurance reimbursement processes outside the United States vary by geography. As our market penetration continues to build momentum, and as we launch new products into the market, we plan to further expand our sales, clinical and marketing infrastructure in the United States. However, only modest territory optimizations and expansions are anticipated in 2020.

In Canada, we established a small direct sales and clinical infrastructure, and commenced marketing and sales efforts following Health Canada approval of the t:slim X2 with G5 integration in October 2018. In November 2019, we received Health Canada approval for the t:slim X2 with Basal-IQ technology. Throughout 2019, we also secured reimbursement in the majority of Canadian provinces, and these efforts will continue in 2020.

In other select geographies outside the United States, our initial efforts focused on the identification and contracting of distributors in areas where we believe there is a meaningful opportunity to achieve market acceptance of our t:slim X2 insulin pump. We began our scaled launch in the third quarter of 2018 after obtaining the right to affix the CE Mark to the t:slim X2 with G5 integration and following the completion of pre-launch activities, such as translating our pump software and user manual, and completing distributor sales and customer service trainings. Unlike our domestic operations, our international distributors (other than in Canada) have substantially greater responsibility for sales, marketing and customer support efforts. Our international distributors in 2019 covered several geographies including: Australia, Italy, New Zealand, Scandinavia (Denmark, Norway and Sweden), South Africa, Spain, and the United Kingdom. In 2020, our international distributors will also cover Germany, France, Belgium, Luxembourg and the Netherlands.

Revenue Concentrations and Significant Customers. A small number of independent domestic distributors have historically accounted for a significant portion of our revenues. During the year ended December 31, 2019, we made sales to approximately 43 independent distributors in the United States, and 12 independent distributors internationally. In fiscal 2019, sales to Byram Healthcare and RGH Enterprises, Inc. accounted for 15.4% and 14.8% of consolidated sales, respectively. In fiscal 2018, sales to RGH Enterprises, Inc. and Byram Healthcare accounted for 19.4% and 15.6% of consolidated sales, respectively. None of our independent distributors in the United States are required to sell our products exclusively and each of them may freely sell the products of our competitors. Our distributor agreements in the United States generally have one-year initial terms with automatic one-year renewal terms and are terminable in connection with a party's material breach. Our distributor agreements outside the United States generally have longer initial terms and, in addition to being terminable in connection with a party's material breach, include provisions that allow us to terminate those agreements prior to their ordinary expiration in exceptional circumstances. We believe our domestic distributors carry minimal inventory at any given time. Internationally, there may be variability in inventory levels among our distributors, particularly when they first commence product sales or surrounding the launch of new products.

Animas. In October 2017, Johnson & Johnson announced that it was discontinuing the operations of Animas, and exiting the insulin pump business entirely, and, in connection with these activities, designated Medtronic as a preferred partner to facilitate the transition of Animas insulin pump customers. Throughout 2018 and 2019 we experienced an increase in our percentage of sales to people who reported converting from using an Animas pump. Animas pump supplies were no longer available for customers to purchase after September 2019. Accordingly, we believe that the vast majority of Animas pump users have transitioned to an alternative pump, and that remaining Animas pump users will likely switch in 2020 as they use up their remaining supplies.

Outside the United States, many of our international distributors had existing relationships with Animas customers and were motivated to keep those individuals as existing customers by replacing Animas pumps with our t:slim X2 as opportunities arose. We believe the benefit from the Animas opportunity outside the U.S. was substantially realized by end of the second quarter of 2019.

Training and Customer Care. Our customer care infrastructure, which services the United States and Canada, consists of individuals focused on training, insurance verification and 24/7 technical services. Our goal is to offer best-in-class customer support and services as these offerings are often viewed by people with diabetes and their healthcare providers equally as important as the products we offer. In 2019, we opened a facility in Boise, Idaho to begin scaling our customer care organization outside of San Diego. This has allowed us to hire talented service employees more quickly than we would have been able to in San Diego at a lower cost of operations, which provides further leverage to our infrastructure. During 2020 we expect to expand our customer care infrastructure, including investments in facilities, technology and personnel, to meet the needs of our larger base of in-warranty customers. We also provide training to our distribution partners who fulfill their customer care responsibilities outside the United States.

Third-Party Reimbursement

In the United States, customer orders are typically fulfilled by billing third-party payors on behalf of our customers, or by utilizing our network of distributors who then bill third-party payors on our customers' behalf. Our fulfillment and reimbursement systems are fully integrated such that our products are shipped only after receipt of a valid physician's order and verification of current health insurance information.

We are accredited by the Community Health Accreditation Program and are an approved Medicare provider. Over the last ten years, Medicare reimbursement rates for insulin pumps and disposable cartridges have remained relatively unchanged. Domestically, we primarily bill for our insulin pump products and associated supplies using existing Healthcare Common Procedure Coding System codes for which Medicare reimbursement is well established. However, pump eligibility criteria for people with type 2 diabetes can be different and often requires additional documentation and laboratory testing to gain in-network insurance reimbursement benefits.

We enter into contracts with national and regional third-party payors to establish reimbursement for our insulin pump products, disposable cartridges and other related supplies. We employ a team of managed care managers who are responsible for negotiating and securing contracts with third-party payors throughout the United States. For the year ended December 31, 2019, approximately 27% of our sales in the United States were generated through our direct third-party payor contracts.

If we are not contracted with a person's third-party payor and in-network status cannot be otherwise obtained, then to the extent possible we utilize distribution channels so our customers' orders can be serviced. As of December 31, 2019, we had executed distributor agreements with approximately 43 independent distributors in the United States. In some cases, but not all, this network of distributors allows us to access people who are covered by commercial payors with whom we are not contracted, at in-network rates that are generally more affordable for our customers. However, UnitedHealthcare designated one of our competitors as their preferred, in-network durable medical equipment provider of insulin pumps for most customers over seven years of age. Unless UnitedHealthcare implements a change to its coverage policies for insulin pumps, we expect this decision will prevent a majority of UnitedHealthcare members from purchasing our insulin pump , whether directly from us or through our network of distributors.

Our distribution partners outside the United States and Canada are responsible for all reimbursement, tender application and fulfillment activities.

Manufacturing and Quality Assurance

Historically, we have manufactured our pump and disposable cartridge products at our Barnes Canyon facility in San Diego, California. In 2020, we anticipate outsourcing a portion of our cartridge manufacturing to an experienced third-party contract manufacturer to provide us additional flexibility in scaling our business while creating additional leverage. In 2019, we made capital expenditure investments for the expansion of warehousing capacity and ordered additional manufacturing equipment for implementation in 2020. We anticipate these investments will allow us to double our cartridge manufacturing capacity from 2019 to 2020, without meaningfully increasing the cost of overhead associated with our manufacturing facilities. We believe these investments position us well to achieve our long-term gross margin targets.

We currently utilize a semi-automated manufacturing process for our pump products and disposable cartridges. The pump production line reaches a maximum output of approximately 30,000 pumps per year on a single shift. In 2019, we scaled from two to three pump manufacturing lines and currently have the capacity to produce approximately 180,000 pumps annually. Disposable cartridges are manufactured on a production line that reaches a maximum output of approximately one million cartridges per year on a single standard eight-hour shift. In 2019, we had four cartridge manufacturing lines and improved the efficiency of our disposable cartridge manufacturing process, which provided us capacity to build 16 million units annually. We also began investing in three additional cartridge manufacturing lines that will become operational at our third-party manufacturing location. When fully operational, we believe our seven cartridge manufacturing lines can support an installed base of more than 250,000 customers.

Outside suppliers are the source for most of the components and some sub-assemblies in the production of our insulin pumps. Any sole and single source supplier is managed through our supplier management program that is focused on reducing supply chain risk. Our suppliers are evaluated, approved and monitored periodically by our quality department to ensure conformity with the specifications, policies and procedures applicable to our devices. Members of our quality department also inspect our devices at various steps during the manufacturing cycle to facilitate compliance with our devices' stringent specifications.

We have received certification from BSI Group, a Notified Body to the International Standards Organization, or ISO, of our quality system. Certain processes utilized in the manufacturing and testing of our devices have been verified and validated as required by the FDA and other regulatory bodies. As a medical device manufacturer, our manufacturing facility and the facilities of our sterilization and other critical suppliers are subject to periodic inspection by the FDA and certain corresponding state agencies.

Research and Development

Our research and development team includes employees who specialize in software engineering, mechanical engineering, electrical engineering, fluid dynamics, mobile connectivity and graphical user interface design, many of whom have considerable experience in diabetes-related products. Our research and development team focuses on the continuous improvement and support of current product offerings, as well as our products under development.

In June 2015, we entered into non-exclusive agreements with Dexcom to allow the integration of our insulin pump products with the Dexcom G5 and G6 CGM systems worldwide. Each agreement has an initial term of five years, and thereafter renew automatically for additional one-year terms unless either party provides advance notice to the other party that they do not wish to extend the agreement. The agreements do not require any licensing fees, milestone payments or royalty obligations to Dexcom. The agreements contain customary provisions for termination in the event of an uncured material breach or in the event of a dissolution of the other party, and prohibit our assignment of the agreements to a Dexcom competitor without Dexcom's prior consent.

In 2016, we entered into a worldwide, non-exclusive, royalty-bearing license agreement with TypeZero to allow the integration of our insulin pump products with TypeZero's inControl AID technology. The agreement also provides us access to TypeZero's future AID innovations for five years following the date of the agreement. In addition, the license agreement contemplated that our insulin pump products would be used alongside TypeZero's AID technology in certain studies under the International Diabetes Closed Loop (IDCL) Trial, which are now completed. In August 2018, TypeZero was acquired by Dexcom. Nevertheless, the terms of our agreement with TypeZero remain effective until the patents covered by the agreement have expired, subject to customary provisions for termination in the event of an uncured material breach.

In October 2019, we and Abbott Laboratories, or Abbott, announced that we intend to develop and commercialize integrated diabetes solutions that combine Abbott's glucose sensing technology with Tandem's innovative insulin delivery systems to provide additional treatment options for people with insulin-dependence to manage their diabetes. These development and commercialization plans are contingent on the negotiation of a definitive agreement, and while the parties are currently exploring a business relationship, there can be no assurance that an agreement will be reached or that any agreement will be on the terms that are currently being discussed.

Intellectual Property

We have made protection of our intellectual property a strategic priority. We rely on a combination of copyright, patent, trademark, trade secret and other intellectual property laws, non-disclosure agreements and other measures to protect our proprietary rights.

As of December 31, 2019, our patent portfolio consisted of approximately 86 issued U.S. patents and 68 pending U.S. patent applications. Of these, our issued U.S. patents expire between approximately 2021 and 2036. We are also seeking patent protection for our proprietary technology in other countries throughout the world. In addition, we also have 39 trademark registrations, including 16 U.S. trademark registrations and 23 foreign trademark registrations.

In July 2012, we entered into an agreement with Smiths Medical, Inc. pursuant to which we were granted, through certain assignments and certain non-exclusive and exclusive, worldwide, fully paid-up, royalty-free licenses, certain rights to patents and patent applications related to ambulatory infusion pumps and related software and accessories for the treatment of diabetes. We agreed to pay $5.0 million in license fees and to share equally any associated sublicense revenues we may receive. As of December 31, 2019, we had paid the initial license fees in full and have not entered into any sublicense agreements.

Competition

The medical device industry is intensely competitive, subject to rapid change and highly sensitive to the introduction of new products, treatment techniques or technologies, or other market activities of industry participants. We compete in domestic and international markets with a number of companies that manufacture insulin delivery devices, such as Medtronic MiniMed, a division of Medtronic, and Insulet Corporation. In late 2017, Eli Lilly & Co. announced that it was developing an insulin pump with AID technology, and there are several other companies that are currently marketing insulin pump products in international markets. In addition, we face competition from a number of companies, medical researchers and existing pharmaceutical companies that are pursuing new delivery devices, delivery technologies, sensing technologies, procedures, drugs and other therapeutics for the monitoring, treatment and prevention of diabetes.

For additional information, see the section of this Annual Report under the caption "Risk Factors" in Part I, Item 1A.

Government Regulation

Our products are medical devices subject to extensive regulation by the FDA in the United States, corresponding state regulatory authorities and other regulatory bodies in other countries. The U.S. Federal Food, Drug, and Cosmetic Act, (FDCA) and the FDA's implementing regulations govern:

- product design and development;
- pre-clinical and clinical testing;
- establishment registration and product listing;
- product manufacturing;
- labeling and storage;
- pre-market clearance or approval;
- advertising and promotion;
- product sales and distribution;
- recalls and field safety corrective actions; and
- servicing and post-market surveillance.

FDA's Pre-Market Clearance and Approval Requirements. Unless an exemption applies, each new or significantly modified medical device we seek to commercially distribute in the United States will require either a pre-market notification under Section 510(k) of the FDCA, also referred to as a 510(k) clearance, or approval from the FDA through the Premarket Approval, or PMA, process. Both the 510(k) clearance and PMA processes can be expensive, lengthy and require payment of significant user fees, unless an exemption is available.

The FDA classifies medical devices into one of three classes. Devices requiring fewer controls because they are deemed to pose lower risk are placed in Class I or II. Class I devices are subject to general controls such as labeling, pre-market notification and adherence to the FDA's Quality System Regulation, or QSR, which cover manufacturers' methods and documentation of the design, testing, production, control quality assurance, labeling, packaging, sterilization, storage and shipping of products. Class II devices are subject to special controls such as performance standards, post-market surveillance, FDA guidelines, or particularized labeling, as well as general controls. Some Class I and Class II devices are exempted by regulation from the 510(k) clearance requirement, and the requirement of compliance with substantially all of the QSR. t:slim, t:flex, t:slim X2, t:slim X2 with Control-IQ technology and t:connect received FDA clearance as Class II devices. However, t:connect was subsequently down-classified to a Class I device. A PMA application is required for devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or certain implantable devices, or those that are "not substantially equivalent" either to a device previously cleared through the 510(k) process or to a "preamendment" Class III device in commercial distribution before May 28, 1976 when PMA applications were not required. t:slim G4 and t:slim X2 with G5 integration, and t:slim X2 with Basal-IQ technology received FDA approval as Class III devices.

There are three new Class II categories classified by the FDA for the interoperability of devices as a complete AID system that are intended to help support continued rapid innovation by streamlining the regulatory pathway for integrated products approved by the FDA. In June 2018, our t:slim X2 with Basal-IQ technology was the first insulin pump to receive approval for iCGM compatibility. In February 2019, we received FDA approval of our De Novo application to classify the t:slim X2 to a Class II device, under the new insulin pump classification referred to as ACE pumps. Most recently, in December 2019 we received FDA approval of our De Novo application to classify our Control-IQ technology as the first automated insulin dosing software in a new interoperable automated glycemic controller category that automatically adjusts insulin delivery to a person with diabetes by connecting to an ACE pump and iCGM. In connection with the De Novo applications for both the ACE pump and the interoperable automated glycemic controller category the FDA also established certain special controls that we will need to continue to satisfy. If we are not able to satisfy those special controls, we would be required to seek approval for those products under the traditional PMA submission process.

For Class III devices a PMA application must be supported by valid scientific evidence that typically includes extensive technical, pre-clinical, clinical, manufacturing and labeling data to demonstrate to the FDA's satisfaction the safety and efficacy of the device. A PMA application also must include a complete description of the device and its components, a detailed description of the methods, facilities and controls used to manufacture the device, and proposed labeling. After a PMA application is submitted and found to be sufficiently complete, the FDA begins an in-depth review of the submitted information. During this review period, the FDA may request additional information or clarification of information already provided. Also, during the review period, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA. In addition, the FDA generally will conduct a pre-approval inspection of the manufacturing facility to evaluate compliance with QSR, which requires manufacturers to implement and follow design, testing, control, documentation and other quality assurance procedures.

FDA review of a PMA application generally takes approximately one year but may take significantly longer. The FDA can delay, limit or deny approval of a PMA application for many reasons, including:

- systems may not be safe or effective to the FDA's satisfaction;
- the data from pre-clinical studies and clinical trials may be insufficient to support approval;
- the manufacturing process or facilities may not meet applicable requirements; and
- changes in FDA approval policies or adoption of new regulations may require additional data.

If an FDA evaluation of a PMA application is favorable, the FDA will issue either an approval letter, or approvable letter, which usually contains a number of conditions that must be met in order to secure final approval of the PMA. When and if those conditions have been fulfilled to the satisfaction of the FDA, the agency will issue a PMA approval letter authorizing commercial marketing of a device, subject to the conditions of approval and the limitations established in the approval letter. If the FDA's evaluation of a PMA application or manufacturing facilities is not favorable, the FDA will deny approval of the PMA or issue a not-approvable letter. The FDA also may determine that additional tests or clinical trials are necessary, in which case the PMA approval may be delayed for several months or years while the trials are conducted and data is submitted in an amendment to the PMA. The PMA process can be expensive, uncertain and lengthy and a number of devices for which FDA approval has been sought by other companies have never been approved by the FDA for marketing.

New PMA applications or PMA supplements may be required for modifications to the manufacturing process, labeling, device specifications, materials or design of a device that has been approved through the PMA process. PMA supplements often require submission of the same type of information as an initial PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the approved PMA application and may or may not require as extensive technical or clinical data or the convening of an advisory panel.

Clinical trials are typically required to support a PMA application and are sometimes required for a 510(k) clearance. These trials generally require submission of an application for an Investigational Device Exemption, or IDE, to the FDA. The IDE application must be supported by appropriate data, such as animal and laboratory testing results, showing that it is safe to test the device in humans and that the testing protocol is scientifically sound. The IDE application must be approved in advance by the FDA for a specified number of patients, unless the product is deemed a non-significant risk device and eligible for abbreviated IDE requirements. Generally, clinical trials for a significant risk device may begin once the IDE application is approved by the FDA and the study protocol and informed consent are approved by appropriate institutional review boards at the clinical trial sites. The FDA's approval of an IDE allows clinical testing to go forward, but it does not bind the FDA to accept the results of the trial as sufficient to prove the product's safety and efficacy, even if the trial meets its intended success criteria. All clinical trials must be conducted in accordance with the FDA's IDE regulations that govern investigational device labeling, prohibit promotion, and specify an array of recordkeeping, reporting and monitoring responsibilities of study sponsors and study investigators. Clinical trials must further comply with the FDA's regulations for institutional review board approval and for informed consent and other human subject protections. Required records and reports are subject to inspection by the FDA. The results of clinical testing may be unfavorable or, even if the intended safety and efficacy success criteria are achieved, may not be considered sufficient for the FDA to grant approval or clearance of a product. The commencement or completion of any clinical trial may be delayed or halted, or be inadequate to support approval of a PMA application, for numerous reasons, including, but not limited to, the following:

- the FDA or other regulatory authorities do not approve a clinical trial protocol or a clinical trial, or place a clinical trial on hold;
- patients do not enroll in clinical trials at the rate expected;
- patients do not comply with trial protocols;
- patient follow-up is not at the rate expected;
- patients experience adverse side effects;
- patients die during a clinical trial, even though their death may not be related to the products that are part of our trial;
- institutional review boards and third-party clinical investigators may delay or reject the trial protocol;
- third-party clinical investigators decline to participate in a trial or do not perform a trial on the anticipated schedule or consistent with the clinical trial protocol, good clinical practices or other FDA requirements;
- we or third-party organizations do not perform data collection, monitoring and analysis in a timely or accurate manner or consistent with the clinical trial protocol or investigational or statistical plans;
- third-party clinical investigators have significant financial interests related to us or our study that the FDA deems to make the study results unreliable, or the company or investigators fail to disclose such interests;
- regulatory inspections of our clinical trials or manufacturing facilities, which may, among other things, require us to undertake corrective action or suspend or terminate our clinical trials;
- changes in governmental regulations or administrative actions;
- the interim or final results of the clinical trial are inconclusive or unfavorable as to safety or efficacy; and
- the FDA concludes that our trial design is inadequate to demonstrate safety and efficacy.

Other Regulatory Requirements. Even after a device receives clearance or approval and is placed in commercial distribution, numerous regulatory requirements apply. These include:

- establishment registration and device listing;
- QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, production, control, supplier/contractor selection, complaint handling, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- labeling regulations that prohibit the promotion of products for uncleared, unapproved or “off-label” uses, and impose other restrictions on labeling, advertising and promotion;
- the FDA’s Medical Device Reporting, or MDR regulations, which require that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur;
- voluntary and mandatory device recalls to address problems when a device is defective and could be a risk to health; and
- corrections and removals reporting regulations, which require that manufacturers report to the FDA field corrections and product recalls or removals if undertaken to reduce a risk to health posed by the device or to remedy a violation of the FDCA that may present a risk to health.

Also, the FDA may require us to conduct post-market surveillance studies or establish and maintain a system for tracking our products through the chain of distribution to the patient level. We are currently in the planning phases for a post-market surveillance study for our t:slim X2 with Control-IQ technology. The FDA and the Food and Drug Branch of the California Department of Health Services enforce regulatory requirements by conducting periodic, unannounced inspections and market surveillance. Inspections may include the manufacturing facilities of our subcontractors.

In general, failure to comply with applicable regulatory requirements can result in enforcement actions by the FDA and other regulatory agencies. These may include any of the following sanctions or consequences:

- warning letters or untitled letters that require corrective action;
- fines and civil penalties;
- unanticipated expenditures;
- delays in approving or refusal to approve future products;
- FDA refusal to issue certificates to foreign governments needed to export products for sale in other countries;
- suspension or withdrawal of FDA clearance or approval;
- product recall or seizure;
- interruption of production;
- operating restrictions;
- injunctions; and
- criminal prosecution.

We and our contract manufacturers, specification developers and some suppliers of components or device accessories, are required to manufacture our products in compliance with current Good Manufacturing Practice, or GMP, requirements set forth in the QSR. The QSR requires a quality system for the design, manufacture, packaging, labeling, storage, installation and servicing of marketed devices, and it includes extensive requirements with respect to quality management and organization, device design, buildings, equipment, purchase and handling of components or services, production and process controls, packaging and labeling controls, device evaluation, distribution, installation, complaint handling, servicing, and record keeping. The FDA evaluates compliance with the QSR through periodic unannounced inspections that may include the manufacturing facilities of our subcontractors. If the FDA believes that we or any of our contract manufacturers, or regulated suppliers, are not in compliance with these requirements, it can shut down our manufacturing operations, require recall of our products, refuse to approve new marketing applications, institute legal proceedings to detain or seize products, enjoin future violations or assess civil and criminal penalties against us or our officers or other employees.

Licensure. In the United States, several states require that durable medical equipment, or DME, providers be licensed in order to sell products to patients in that state. Some of these states require that DME providers maintain an in-state location or retain a licensed pharmacist, and in those states, we sell our products through a third-party distributor. Although we believe we are in material compliance with applicable state regulations regarding licensure requirements, if we were found to be noncompliant, we could be subject to fines and penalties or lose our licensure in that state, which could prohibit us from selling our current or future products to patients in that state. In addition, we are subject to certain state laws regarding professional licensure. We believe that our certified diabetes educators are in material compliance with such state laws. However, if our educators or we were to be found non-compliant in a given state, we may need to modify our approach to providing education, clinical support and customer service.

Fraud and Abuse Laws. There are numerous U.S. federal and state laws pertaining to healthcare fraud and abuse, including the federal Anti-Kickback Statute and the Physician Self-Referral Law, or the Stark Law, the federal civil False Claims Acts, the federal criminal Health Care Fraud Statute, as well as various state laws regulating healthcare. Our relationships with healthcare providers and other third parties are subject to scrutiny under these laws. Violations of these laws are punishable by criminal and civil sanctions, including, in some instances, imprisonment and exclusion from participation in federal and state healthcare programs, including the Medicare, Medicaid and Veterans Administration health programs.

Federal Anti-Kickback Statue. The federal Anti-Kickback Statute prohibits persons from knowingly and willfully soliciting, receiving, offering or providing remuneration, directly or indirectly, in cash or in kind, to induce either the referral of an individual, or the furnishing, recommending, or arranging of a good or service, for which payment may be made under a federal healthcare program such as Medicare and Medicaid.

We provide the initial training to customers necessary for appropriate use of our products either through our own diabetes educators or by contracting with outside diabetes educators who have completed a Tandem pump-training course. Outside diabetes educators are reimbursed for their services at fair market value. Although we believe that these arrangements do not violate the Anti-Kickback Statute, regulatory authorities may determine otherwise, especially as enforcement of this law historically has been a high priority for the federal government. Noncompliance with the federal Anti-Kickback Statute could result in our exclusion from Medicare, Medicaid or other governmental programs (which could adversely affect our revenues to a material extent), restrictions on our ability to operate in certain jurisdictions, and civil and criminal penalties.

Physician Self-Referral Law. The Stark Law prohibits a physician from referring Medicare or Medicaid patients to an entity providing "designated health services," including a company that furnishes durable medical equipment, if the physician has a financial relationship with the company. In addition to statutory exceptions, the Centers for Medicare and Medicaid Services (CMS), has issued numerous regulatory exceptions to the Stark Law. Violation of the Stark Law could result in denial of payment, disgorgement of reimbursements received under a noncompliant arrangement, civil penalties, and exclusion from Medicare, Medicaid or other governmental programs. Although we believe that we have structured our provider arrangements to comply with current Stark Law requirements, these arrangements may not expressly meet the requirements for applicable exception from the law.

Federal False Claims Act. The federal False Claims Act provides, in part, that the federal government may bring a lawsuit against any person whom it believes has knowingly presented, or caused to be presented, a false or fraudulent request for payment from the federal government, or who has made a false statement or used a false record to get a claim approved. In addition, amendments in 1986 to the False Claims Act have made it easier for private parties to bring "qui tam" whistleblower lawsuits under the act. Qui tam actions have increased significantly in recent years, causing greater numbers of healthcare companies to have to defend a false claim action, pay fines and/or be excluded from Medicare, Medicaid or other federal or state healthcare programs as a result of an investigation arising out of such action.

We submit reimbursement claims to federal healthcare programs, and we also may provide some coding and billing information to purchasers of our devices. These activities, if inappropriate, could result in liability under the False Claims Act. Further, claims arising from relationships which violate the Anti-Kickback Statute are considered to be false claims under the False Claims Act. Liability under the False Claims Act may also attach to claims arising from financial relationships which violate the Stark Law. We believe that we currently are in material compliance with the federal government's laws and regulations concerning the submission of claims and the provision of coding and billing information. However, because we cannot guarantee that the government or qui tam relators will regard any billing errors that may be made as inadvertent, or our provider relationships as compliant, we may have exposure under the False Claims Act.

Federal Health Care Fraud Statutes. We are also subject to a federal health care fraud statute that, among other things, imposes criminal and civil liability for executing a scheme to defraud any health care benefit program including non-governmental programs, and prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false or fraudulent statement or representation, or making or using any false writing or document with knowledge that it contains a materially false or fraudulent statement in connection with the delivery of or payment for health care benefits, items or services.

State Fraud and Abuse Provisions. Many states have also adopted some form of anti-kickback and anti-referral laws and false claims acts. We believe that we are in material conformance to such laws. Nevertheless, a determination of liability under such laws could result in fines and penalties and restrictions on our ability to operate in these jurisdictions.

Data Privacy and Information Security Laws and Regulations. t:connect data is hosted on secure servers and our use of t:connect data is subject to internal policies and procedures that are designed to comply with the federal U.S. Health Insurance Portability and Accountability Act of 1996, or HIPAA, as well as applicable U.S state privacy laws (including, but not limited to, the California Consumer Privacy Act). Although t:connect and t:connect HCP are not currently available to users or healthcare providers outside the United States, we are also mindful of requirements under Canada's Personal Information Protection and Electronic Documents Act, referred to as PIPEDA, and similar provincial laws, and the E.U. General Data Protection Regulation, commonly known as GDPR, and similar E.U. member state laws. Collectively, these laws and regulations set standards for safeguarding the confidentiality, integrity, and availability of the personal information we collect and use from customers and healthcare providers. These laws also require, among other things, that we are transparent about how we collect and share personal data and that we give t:connect users the ability to know what data we are collecting about them, to obtain a copy of that data, to correct or amend that data, and to request we restrict use of that data.

Healthcare Fraud. In addition to information security and data privacy obligations, HIPAA also created two new federal crimes: healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing a scheme to defraud any healthcare benefit program, including private payors. A violation of this statute is a felony and may result in fines, imprisonment or exclusion from government sponsored programs. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. A violation of this statute is a felony and may result in fines or imprisonment. We believe we are in substantial compliance with these provisions of HIPAA.

Physician Payments Sunshine Act. The Physician Payments Sunshine Act requires certain manufacturers, including medical device manufacturers, to submit annual data pertaining to payments or other transfers of value to covered recipients, including physicians. Manufacturers may be subject to audit for their compliance with this law. Failure to submit the required data in an accurate and timely manner may result in the imposition of civil monetary penalties. We believe we are in substantial compliance with the Physician Payments Sunshine Act.

Anti-Bribery and Anti-Corruption Laws. The U.S. Foreign Corrupt Practices Act, or the FCPA, and similar laws in foreign jurisdictions generally prohibit U.S. corporations and their representatives from offering, promising, authorizing or making improper payments, gifts or transfers to any foreign government official in order to obtain or retain business. The scope of the FCPA would include interactions with certain healthcare professionals and hospital administrators in many countries. We believe we are in substantial compliance with the FCPA and similar foreign regulations.

International Regulation

International sales of medical devices are subject to local government regulations, which vary substantially from country to country. The time required to obtain approval in another country may be longer or shorter than that required for FDA approval, and the requirements may differ. There is a trend towards harmonization of quality system standards among the European Union, United States, Canada and various other industrialized countries.

The primary regulatory body in Europe is that of the European Union, which includes most of the major countries in Europe. Other countries, such as Switzerland, have voluntarily adopted laws and regulations that mirror those of the European Union with respect to medical devices. The European Union has adopted numerous directives and standards regulating the design, manufacture, clinical trials, labeling and adverse event reporting for medical devices. Devices that comply with the requirements of a relevant directive will be entitled to bear the CE conformity marking, indicating that the device conforms to the essential requirements of the applicable directives and, accordingly, can be commercially distributed throughout Europe. The method of assessing conformity varies depending on the class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a “Notified Body.” This third-party assessment may consist of an audit of the manufacturer’s quality system and specific testing of the manufacturer’s product. An assessment by a Notified Body of one country within the European Union is required in order for a manufacturer to commercially distribute the product throughout the European Union. Additional local requirements may apply on a country-by-country basis. Outside of the European Union, regulatory approval would need to be sought on a country-by-country basis in order for us to market our products.

Employees

As of December 31, 2019, we had 1,043 full-time employees. None of our employees are represented by a collective bargaining agreement, and we have never experienced any work stoppage. We believe we have good relations with our employees.

Executive Officers

Kim D. Blickenstaff (age 67) has served as Executive Chairman of our board of directors since March 2019, and previously served as President and Chief Executive Officer from September 2007 to March 2019. Mr. Blickenstaff has served as one of our directors since September 2007. We recently announced that Mr. Blickenstaff will transition to the role of Chairman of our board of directors in March 2020. Prior to joining our company, he served as Chairman and Chief Executive Officer of Biosite Incorporated, or Biosite, a provider of medical diagnostic products, from 1988 until its acquisition by Inverness Medical Innovations, Inc. in June 2007. Mr. Blickenstaff previously served as a director of Medivation, Inc. (NASDAQ: MDVN), a biotechnology company, from 2005 to 2016, until its acquisition by Pfizer, and as a director of DexCom, Inc. (NASDAQ: DXCM), a provider of CGM systems, from June 2001 to September 2007. Mr. Blickenstaff was formerly a certified public accountant and has more than 20 years of experience overseeing the preparation of financial statements. He received a B.A. in Political Science from Loyola University, Chicago, and an M.B.A. from the Graduate School of Business, Loyola University, Chicago.

John F. Sheridan (age 64) has served as our President and Chief Executive Officer since March 2019 and as a member of our board of directors since June 2019. Mr. Sheridan previously served as Executive Vice President and Chief Operating Officer since April 2013. Prior to joining our company, Mr. Sheridan served as Chief Operating Officer of Rapiscan Systems, Inc., a provider of security equipment and systems, from March 2012 to February 2013. Mr. Sheridan served as Executive Vice President of Research and Development and Operations for Volcano Corporation, a medical technology company, from November 2004 to March 2010. From May 2002 to May 2004, Mr. Sheridan served as Executive Vice President of Operations at CardioNet, Inc., a medical technology company, now operating as BioTelemetry, Inc. (NASDAQ: BEAT). From March 1998 to May 2002, he served as Vice President of Operations at Digirad Corporation, a medical imaging company. Mr. Sheridan holds a B.S. in Chemistry from the University of West Florida and an M.B.A. from Boston University.

David B. Berger (age 50) has served as our Chief Legal and Compliance Officer since April 2019, as General Counsel since August 2013, as our Corporate Secretary since January 2015, and as our Executive Vice President since January 2016. From January 2008 until August 2013, Mr. Berger was employed at Senomyx, Inc., a taste science company, where he most recently served as Senior Vice President and General Counsel. He also served as Corporate Secretary of Senomyx from January 2008 until May 2014. From April 2003 until October 2007, Mr. Berger was responsible for all commercial aspects of legal affairs at Biosite, most recently serving as Vice President, Legal Affairs. Previously, Mr. Berger was an attorney at Cooley Godward LLP and Amylin Pharmaceuticals, Inc. Mr. Berger holds a B.A. in Economics from the University of California, Berkeley and a J.D. from Stanford Law School.

Brian B. Hansen (age 52) has served as our Executive Vice President and Chief Commercial Officer since February 2016. Prior to joining our company, Mr. Hansen served from September 2014 as Chief Commercial Officer of Adaptive Biotechnologies Corp. From May 2013 to September 2014, Mr. Hansen served as Head of Commercial, Sales and Marketing, of Genoptix, a Novartis Company. From December 2005 to February 2013, he served in various roles of increasing responsibility at Gen-Probe, Inc., a medical diagnostics company, most recently serving as Senior Vice President, Global Sales and Services from January 2012 to February 2013. Mr. Hansen received a B.S. in Business Administration from the University of Missouri-Columbia, and an M.B.A. from the School of Business at San Diego State University.

Elizabeth A. Gasser (age 44) has served as our Executive Vice President of Strategy and Corporate Development since January 2020. Prior to joining our company, Ms. Gasser served from June 2017 as an independent adviser providing strategic and corporate development solutions to boards and executive teams. From January 2016 to June 2017 she was Vice President of Corporate Strategy at QUALCOMM Technologies, Inc. (QTI), a subsidiary of QUALCOMM Incorporated (NASDAQ: QCOM), a global leader in the development and commercialization of technologies and products used in mobile devices and other wireless products. Prior to that, from November 2012 to January 2016 she was Vice President of Strategic Development at QTI, after serving in other strategic related roles of increasing responsibility beginning in 2006. Ms. Gasser holds a B.A. and an M.A. in Economics from the University of Cambridge.

Susan M. Morrison (age 40) has served as our Chief Administrative Officer since September 2013 and as an Executive Vice President since December 2017. From April 2013 until September 2013, she served as our Vice President, Human Resources, Corporate and Investor Relations. Ms. Morrison served as our Director, Corporate and Investor Relations, from January 2009 to March 2013, and was our Director, Corporate Services from November 2007 to December 2008. Prior to joining our company, Ms. Morrison held various positions in Corporate and Investor Relations at Biosite from August 2003 through November 2007. Ms. Morrison holds a B.A. in Public Relations from Western Michigan University.

Leigh A. Vosseller (age 47) has served as our Executive Vice President, Chief Financial Officer, and Treasurer since June 2018, and served as Senior Vice President, Chief Financial Officer and Treasurer from January 2018 to May 2018. Ms. Vosseller is our principal financial and accounting officer. She joined us as Vice President of Finance in 2013 and was promoted to Senior Vice President of Finance in August 2017. Prior to that time, she served as Vice President and Chief Financial Officer at Genoptix, beginning in 2011, after initially joining Genoptix in 2008. Prior to that she held a senior finance position at Biosite where she played a key role in developing the financial and administrative infrastructure for international expansion. Ms. Vosseller is a certified public accountant (inactive) and holds a B.S. in Accounting from Missouri State University.

Family Relationships

Mr. Sheridan, our President and Chief Executive Officer, and Ms. Vosseller, our Executive Vice President, Chief Financial Officer and Treasurer, are involved in a personal relationship and share a primary residence. Ms. Vosseller reports directly to Mr. Sheridan. Our board of directors is informed of the relationship and due to the direct reporting arrangement, we have taken appropriate actions to ensure compliance with Company policies and procedures. Mr. Sheridan and Ms. Vosseller will not be involved in setting compensation or benefits for one another, which will continue to be determined by our Compensation Committee. In addition, our Audit Committee of the Board of Directors considered whether additional internal disclosure controls and procedures are appropriate in light of the circumstances and, as a result, certain additional internal controls were implemented during the year ended December 31, 2019.

Except as described above, there are no family relationships between any of our directors and executive officers.

Additional Information

We were incorporated in Colorado in January 2006 and reincorporated in Delaware in January 2008. Our website address is *www.tandemdiabetes.com*. We post links to our website to the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, information statements, beneficial ownership reports and any amendments to those reports or statements filed or furnished pursuant to Sections 13(a), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All such filings are available through our website free of charge. However, the information contained on or accessed through our website does not constitute part of this Annual Report, and references to our website address in this Annual Report are inactive textual references only.

Item 1A. Risk Factors

An investment in our common stock involves risks. You should carefully consider the risks described below, together with all of the other information included in this Annual Report, as well as in our other filings with the SEC, in evaluating our business. If any of the following risks actually occur, our business, financial condition, operating results and future prospects could be materially and adversely affected. In that case, the trading price of our common stock may decline and you might lose all or part of your investment. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business, financial condition, operating results and prospects. Certain statements below are forward-looking statements. For additional information, see the section of this Annual Report under the caption "Cautionary Note Regarding Forward-Looking Statements."

Risks Related to our Business and our Industry

We have incurred significant operating losses since inception and cannot assure you that we will achieve sustained profitability.

Since our inception in January 2006, we have incurred a significant net loss. As of December 31, 2019, we had an accumulated deficit of $624.8 million. To date, we have funded our operations primarily through private and public offerings of our equity securities, cash collected from sales of our products, and debt financing which has since been fully repaid. We have devoted substantially all of our resources to the design, development and commercialization of our products, the scaling of our manufacturing operations and commercial organization, the research and development of our current products and products under development, and the assembly of a management team to manage our business.

We began commercial sales of our first product, t:slim, in August 2012 and our flagship pump platform, t:slim X2, in October 2016. The t:slim X2 hardware platform now represents 100% of new pump shipments. Until the third quarter of 2018 we were only selling our products in the United States.

Since the first quarter of 2013, we have been able to manufacture and sell our insulin pump products at a cost and in volumes sufficient to allow us to achieve a positive overall gross margin. For the years ended December 31, 2019 and 2018, our gross profit was $194.2 million and $89.8 million, respectively. Although we have achieved a positive overall gross margin and have substantially reduced our operating loss, we still operate at a net loss on an annual basis and expect that we may continue to do so for the foreseeable future.

To implement our business strategy and achieve consistent profitability, we need to, among other things, increase sales of our products and the gross profit associated with those sales, maintain an appropriate customer service and support infrastructure, fund ongoing research and development activities, create additional efficiencies in our manufacturing processes while adding to our capacity, and obtain regulatory clearance or approval to commercialize our products currently under development both domestically and internationally. We expect our expenses will continue to increase as we pursue these objectives and make investments in our business. Additional increases in our expenses without commensurate increases in sales could significantly increase our operating losses.

The extent of our future operating losses and the timing of our profitability are highly uncertain in light of a number of factors, including the timing of the launch of new products and product features by us and our competitors, market acceptance of our products and competitive products by people with insulin-dependent diabetes, their caregivers and healthcare providers, and the timing of regulatory approval of our products and the products of our competitors. Any additional operating losses will have an adverse effect on our stockholders' equity, and we cannot assure you that we will be able to sustain profitability.

We currently rely on sales of insulin pump products to generate a significant portion of our revenue, and any factors that negatively impact sales of these products may adversely affect our business, financial condition and operating results.

We generate nearly all of our revenue from the sale of t:slim X2 insulin pumps and the related insulin cartridges and infusion sets. Sales of these products may be negatively impacted by many factors, including:

- market acceptance of the insulin pumps and related products manufactured and sold by our key competitors, including Medtronic MiniMed, a division of Medtronic plc;
- the potential that breakthroughs for the monitoring, treatment or prevention of diabetes may render our insulin pumps obsolete or less desirable;
- adverse regulatory or legal actions relating to our products, or similar products or technologies of our competitors;
- failure of our Tandem Device Updater to accurately and timely provide customers with remote access to new product features and functionality as anticipated, or our failure to obtain regulatory approval for any such updates;
- changes in reimbursement rates or policies relating to insulin pumps or similar products or technologies by third-party payors, such as the decision by UnitedHealthcare that restricts a majority of its members from accessing our pumps;
- our inability to enter into contracts with third-party payors on a timely basis and on acceptable terms;
- problems arising from the expansion of our manufacturing capabilities and commercial operations, or destruction, loss, or temporary shutdown of our manufacturing facilities;
- concerns regarding the perceived safety or reliability of any of our products, or any component thereof; and
- claims that any of our products, or any component thereof, infringes on patent rights or other intellectual property rights of third parties.

In addition, sales of any of our current or future insulin pump products with CGM integration are subject to the continuation of our applicable agreements with Dexcom or other third parties which, under some circumstances, may be subject to termination, with or without cause, on relatively short notice. Sales of our current products may also be negatively impacted in the event of any regulatory or legal actions relating to CGM products that are compatible with our pumps, or in the event of any disruption to the availability of the applicable CGM-related supplies, such as sensors or transmitters, in a given market in which our products are sold. Sales of our products may also be adversely impacted if the CGM products that are compatible with our pumps are not viewed as superior to competing CGM products in markets where our products are sold, or if the price of these products is not competitive with similar products available in the market.

Because we currently rely on sales of our t:slim X2 insulin pump and related products to generate a significant majority of our revenue, any factors that negatively impact sales of these products, or result in sales of these products increasing at a lower rate than expected, could adversely affect our business, financial condition and operating results.

Our ability to maintain and grow our revenue depends in part on retaining a high percentage of our customer base.

A key to maintaining and growing our revenue is the retention of a high percentage of our customers due to the potentially significant revenue generated from ongoing purchases of disposable insulin cartridges and other supplies. In addition, our pumps are designed and tested to remain effective for at least four years and a satisfied customer may consider purchasing another product from us when the time comes to replace the pump. We have developed retention programs aimed at our customers, their caregivers and healthcare providers, which include training specific to our products, ongoing support by sales and clinical employees, and technical support and customer service. Demand for our products from our existing customers could decline or could fail to increase in line with our projections as a result of a number of factors, including the introduction of competitive products, breakthroughs for the monitoring, treatment or prevention of diabetes, changes in reimbursement rates or policies, manufacturing problems, perceived safety or reliability issues with our products or components or the products of our competitors, the failure to secure regulatory clearance or approvals for products or product features in a timely manner or at all, or for other reasons. The failure to retain a high percentage of our customers and increase sales to these customers consistent with our forecasts would have a material adverse effect on our business, financial condition and operating results.

We operate in a very competitive industry and if we fail to compete successfully against our existing or potential competitors, many of whom have greater resources than us, our sales and operating results may be negatively affected.

The medical device industry is intensely competitive, subject to rapid change and highly sensitive to the introduction of new products, treatment techniques or technologies, as well as other activities of industry participants. We believe our products compete, and will continue to compete, directly with a number of traditional insulin pumps, as well as other methods for the treatment of diabetes, including MDI therapy.

Our primary competitors are major medical device companies that are either publicly traded companies or divisions or subsidiaries of publicly traded companies, including Insulet and Medtronic MiniMed. In addition, Eli Lilly & Co. is developing an insulin pump. There are also a number of other companies developing and marketing their own insulin delivery systems and/or related software applications, including insulin pumps and Bluetooth-enabled insulin pens to support MDI therapy. While these industry changes are significant, it is difficult to know how they will impact our business or the competitive landscape in which we operate. Our key competitors, most notably Medtronic, enjoy several competitive advantages over us, including:

- greater financial and human resources for sales and marketing, product development, customer service and clinical resources;
- greater ability to respond to competitive pressures and regulatory uncertainty;
- established relationships with healthcare providers, third-party payors and regulatory agencies;
- established reputation and name recognition among healthcare providers and other key opinion leaders in the medical industry generally and the diabetes industry in particular;
- greater market share and established base of customers;
- larger and more established distribution networks;
- greater ability to cross-sell products or provide incentives to healthcare providers to use their products; and

- more experience in conducting research and development, manufacturing, clinical trials, and obtaining regulatory approval or clearance.

In some instances, our competitors offer products that include features that we do not currently offer. For instance, Insulet offers an insulin pump with a tubeless delivery system that does not utilize an infusion set.

In addition, the competitive environment in which we operate has resulted and may continue to result in competitive pressures on our manufacturers, suppliers, distributors, collaboration partners and other business constituents. For example, we have entered into development agreements with Dexcom, which provide us non-exclusive licenses to integrate various generations of Dexcom CGM technology with our insulin pump products. In the fourth quarter of 2017, Abbott launched a new blood glucose sensing technology in the United States which competes with the Dexcom technology, and another CGM product with CE Mark approval was approved in the second quarter of 2018 for sale in the United States. While we are currently in discussions with Abbott to develop and commercialize integrated diabetes solutions, there can be no assurance that we will enter into a definitive agreement with Abbott, that such an agreement will be on terms favorable to us, or that this collaboration will be successful. Competitive pressures within our industry could negatively impact the financial condition of our business partners, impact their ability to fulfill contractual obligations to us, and result in harm to our financial condition and operating results.

For these and other reasons, we may not be able to compete successfully against our current or potential future competitors. As a result, our product sales may be negatively affected, which could have a material adverse impact on our financial condition and operating results

Competitive products or other technological developments and breakthroughs for the monitoring, treatment or prevention of diabetes may render our products obsolete or less desirable.

Our ability to achieve our strategic objectives will depend, among other things, on our ability to develop and commercialize products for the treatment of diabetes that offer distinct features and functionality, are easy-to-use, provide superior treatment outcomes, receive adequate coverage and reimbursement from third-party payors, and are otherwise more appealing than available alternatives. Our primary competitors, as well as a number of other companies and medical researchers are pursuing new delivery devices, delivery technologies, sensing technologies, treatment techniques, procedures, drugs and other therapies for the monitoring, treatment and prevention of diabetes. Any breakthroughs in diabetes monitoring, treatment or prevention could reduce the potential market for our products or render our products obsolete altogether, which would significantly reduce our sales or cause our sales to grow at a slower rate than we currently expect. In addition, even the perception that new products may be introduced, or that technological or treatment advancements could occur, could cause consumers to delay the purchase of our products.

Because the insulin-dependent diabetes market is large and growing, we anticipate companies will continue to dedicate significant resources to developing competitive products and technologies. The introduction by competitors of products that are or claim to be superior to our products may create market confusion that may make it difficult to differentiate the benefits of our products over competitive products. In addition, some of our competitors employ aggressive pricing strategies, including the use of discounts, rebates, low cost product upgrades or other financial incentives that could adversely affect sales of our products. If a competitor develops a product that competes with or is perceived to be superior to our products, or if competitors continue to utilize strategies that place downward pressure on pricing within our industry, our sales may decline, our operating margins could be reduced and we may fail to meet our financial projections, which would materially and adversely affect our business, financial condition and operating results.

Moreover, we have designed our products to resemble modern consumer electronic devices to address certain embarrassment and functionality concerns consumers have raised with respect to traditional pumps. The consumer electronics industry is itself highly competitive, and characterized by continuous new product introductions, rapid developments in technology, and subjective and changing consumer preferences. If, in the future, consumers cease to view our products as contemporary or convenient as compared to then-existing consumer electronics technology, our products may become less desirable.

The failure of our insulin pump and related products to achieve and maintain market acceptance could result in us achieving sales below our expectations, which would cause our business, financial condition and operating results to be materially and adversely affected.

Our current business strategy is highly dependent on our insulin pump and related products achieving and maintaining market acceptance. In order for us to sell our products to people with insulin-dependent diabetes, we must convince them, their caregivers and healthcare providers that our products are an attractive alternative to competitive products for the treatment of diabetes, including traditional insulin pump products and MDI therapies, as well as alternative diabetes monitoring, treatment or prevention methodologies. Market acceptance and adoption of our products depends on educating people with diabetes, as well as their caregivers and healthcare providers, about the distinct features, ease-of-use, beneficial treatment outcomes, and other perceived benefits of our products as compared to competitive products. If we are not successful in convincing existing and potential customers of the benefits of our products, or if we are not able to achieve the support of caregivers and healthcare providers for our products, our sales may decline or we may achieve sales below our expectations.

Market acceptance of our products could be negatively impacted by many factors, including:

- the failure of our products to achieve and maintain wide acceptance among people with insulin-dependent diabetes, their caregivers, healthcare providers, third-party payors and key opinion leaders in the diabetes treatment community;
- lack of evidence supporting the safety, ease-of-use or other perceived benefits of our products over competitive products or other currently-available insulin treatment methodologies;
- perceived risks or uncertainties associated with the use of our products, or components thereof, or of similar products or technologies of our competitors;
- adverse regulatory or legal actions relating to our insulin pump products or similar products or technologies; and
- results of clinical studies relating to our existing products or products under development or similar competitive products.

In addition, even if we are able to convince people with insulin-dependent diabetes, their caregivers or healthcare providers that our products compare favorably to the products and treatment alternatives offered by our competitors, negative perceptions regarding our size or financial stability relative to that of our competitors could cause consumers to delay the purchase of our products or to purchase competitive products.

Furthermore, the rapid evolution of technology and treatment options within our industry may cause consumers to delay the purchase of our products in anticipation of advancements or breakthroughs, or the perception that advancements or breakthroughs could occur, in our products or the products offered by our competitors. It is also possible that consumers interested in purchasing any of our future products currently under development may delay the purchase of one of our current products.

If our insulin pump products do not achieve and maintain widespread market acceptance, we may fail to achieve sales consistent with our projections, in which case our business, financial condition and operating results could be materially and adversely affected.

Failure to secure or retain adequate coverage or reimbursement for our current products and our potential future products by third-party payors could adversely affect our business, financial condition and operating results.

A substantial portion of the purchase price of an insulin pump is typically paid for by third-party payors, including private insurance companies, preferred provider organizations and other managed care providers. Future sales of our current and future products will be limited unless our customers can rely on third-party payors to pay for all or part of the associated purchase cost. Access to adequate coverage and reimbursement for our current and future products by third-party payors, both domestically and internationally, is essential to the acceptance of our products by customers.

As guidelines in setting their coverage and reimbursement policies, many third-party payors in the United States use coverage decisions and payment amounts determined by CMS, which administers the U.S. Medicare program. Medicare periodically reviews its reimbursement practices for diabetes-related products, and there is uncertainty as to the future Medicare reimbursement rate for our products. In addition to the currently existing reimbursement code for insulin pumps, CMS recently established an additional reimbursement code for insulin pumps with automated insulin delivery and CGM integration. The reimbursement rate for the new code is expected to be established in 2020, but is not yet known. We are unable to determine the effect of this new reimbursement code on the volume of our pump sales, pump revenues, and operating results, until the reimbursement rate is known. It is also possible that CMS may review and modify the current coverage and reimbursement of diabetes-related products in connection with anticipated changes to the regulatory approval process for insulin pumps and related products, software applications and services. In addition, third-party payors that do not follow the CMS guidelines may adopt different coverage and reimbursement policies for our current and future products. It is possible that some third-party payors will not offer any coverage for our current or future products. For instance, UnitedHealthcare has designated one of our competitors as their preferred, in-network durable medical equipment provider of insulin pumps for most customers age seven or above. Unless UnitedHealthcare changes its coverage policies regarding insulin pumps, we expect this decision will prevent a majority of UnitedHealthcare members from purchasing our products. It is possible that other third-party payors may adopt similar policies in the future, which would adversely impact our ability to sell our products.

We currently have contracts establishing reimbursement for our insulin pump products with approximately 184 national and regional third-party payors in the United States. While we may enter into additional contracts both domestically and internationally, with third-party payors and add coverage for future products under our current agreements, we cannot guarantee that we will succeed in doing so or that the reimbursement contracts that we are able to negotiate will enable us to sell our products on a profitable basis. In particular, we have limited experience securing reimbursement in international markets. In addition, existing contracts with third-party payors generally can be modified or terminated by the third-party payor without cause and with little or no notice to us. Moreover, compliance with the administrative procedures or requirements of third-party payors may result in delays in processing approvals by those third-party payors for customers to obtain coverage for our products. Failure to secure or retain adequate coverage or reimbursement for our current and future products by third-party payors, or delays in processing approvals by those payors, could result in the loss of sales, which could have a material adverse effect on our business, financial condition and operating results.

Further, the healthcare industry in the United States is increasingly focused on cost containment as government and private insurers seek to control healthcare costs by imposing lower payment rates and negotiating reduced contract rates with third-party payors. If third-party payors deny coverage or reduce their current levels of payment, or if our production costs increase faster than increases in reimbursement levels, we may be unable to sell our products on a profitable basis.

We may face unexpected challenges in marketing and selling our products, and training new customers on the use of our products, which could harm our ability to achieve our sales forecasts.

We have limited experience marketing and selling our newer products as well as training new customers on their use, particularly in international markets. In addition, the vast majority of our existing customers are individuals with type 1 diabetes, and we have limited experience marketing and selling our products to customers with type 2 diabetes. We anticipate that selling our products to customers with higher insulin requirements, including customers with type 2 diabetes, may be even more difficult following our decision to discontinue sales of new t:flex pumps in the third quarter of 2018.

Our financial condition and operating results are and will continue to be highly dependent on our ability to adequately promote, market and sell our t:slim X2 insulin pump and related products, and the ability of our diabetes educators to train new customers on the use of our products. If our sales and marketing representatives or diabetes educators fail to achieve their objectives, our sales could decrease or may not increase at levels that are in line with our forecasts.

If we are unable to maintain our existing sales, marketing, clinical and customer service infrastructure, we may fail to increase our sales to meet our forecasts.

A key element of our business strategy involves our sales, clinical, marketing and customer service personnel driving adoption of our products. We have significantly increased the number of sales, marketing, clinical and customer service personnel employed by us since we commenced commercial sales in 2012. However, we have faced considerable challenges in growing and managing these resources, including with respect to recruiting, training and assimilation of new territories and accounts. We expect to continue to face significant challenges as we manage and grow our infrastructure in the future and work to motivate and retain the individuals who make up our existing infrastructure. These challenges may be even greater in connection with our commercial expansion outside of the United States, where we have limited experience. Unexpected turnover among our sales, marketing, clinical and customer service personnel, or unanticipated challenges in recruiting additional personnel, would have a negative impact on our ability to achieve our sales projections. Further, if a sales, marketing or clinical representative was to depart and be retained by one of our competitors, we may fail to prevent him or her from helping competitors solicit business from our existing customers, which could adversely affect our sales. Similarly, if we are not able to recruit and retain a network of diabetes educators and customer service personnel, we may not be able to successfully train and service new customers, which could delay new sales and harm our reputation.

We expect the management of our sales, marketing, clinical and customer service personnel will continue to place significant burdens on our management team. If we are unable to retain our personnel in line with our strategic plans, we may not be able to effectively commercialize our existing products or products under development, or enhance the strength of our brand, either of which could result in the failure of our sales to increase in line with our projections or cause sales to decline.

Our sales and marketing efforts are dependent on independent distributors who are free to market products that compete with our products. If we are unable to maintain or expand our network of independent distributors, our sales may be negatively affected.

For the year ended December 31, 2019, sales to approximately 55 independent distributors represented approximately 76% of our sales. We believe a majority of our sales will continue to be to independent distributors for the foreseeable future, and it is possible that the percentage of our sales to independent distributors could increase, particularly in light of our reliance on independent distributors outside of the United States. For example, our dependence upon independent distributors domestically could increase if third-party payors decide to contract with independent distributors directly in lieu of contracting with us to supply our products to their members directly. Our dependence upon independent distributors could also increase if customers prefer to purchase all of their diabetes supplies through a single source, instead of purchasing pump-related products through us and other diabetes supplies through other suppliers. None of our independent distributors domestically has been required to sell our products exclusively and each of them may freely sell the products of our competitors. Our distributor agreements in the United States generally have one-year initial terms with automatic one-year renewal terms, and are terminable in connection with a party's material breach. Our distributor agreements outside of the United States generally have longer initial terms and, in addition to being terminable in connection with a party's material breach, include provisions that allow us to terminate those agreements prior to their ordinary expiration in specified circumstances. If we are unable to maintain or expand our network of independent distributors, our sales may be negatively affected.

For the year ended December 31, 2019, our two largest independent distributors in the United States collectively comprised approximately 31% of our worldwide sales, and our three largest independent international distributors collectively comprised approximately 60% of our international sales. If any of our key independent distributors were to cease to distribute our products or reduce their promotion of our products as compared to the products of our competitors, our sales could be adversely affected. In that case, we may need to seek alternative independent distributors or increase our reliance on our other independent distributors or our direct sales representatives, which may not prevent our sales from being adversely affected. Additionally, to the extent we enter into additional arrangements with independent distributors to perform sales, marketing or distribution services, the terms of the arrangements could result in our product margins being lower than if we directly marketed and sold our products.

If the third parties on which we increasingly rely to assist us with our current and anticipated pre-clinical development or clinical trials do not perform as expected, we may not be able to obtain regulatory clearance or approval or commercialize our products.

As our clinical infrastructure expands, we expect to increasingly rely on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories to conduct some of our current and anticipated pre-clinical investigations and clinical trials. If we are not able to reach mutually acceptable agreements with these third parties on a timely basis, these third parties do not successfully carry out their commitments or regulatory obligations or meet expected deadlines, or the quality or accuracy of the data they obtain is compromised due to the failure to adhere to agreed upon clinical protocols or regulatory requirements or for other reasons, our pre-clinical development activities or clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory clearance or approval for, or successfully commercialize, our products on a timely basis, if at all, and our business, operating results and prospects may be adversely affected.

We are increasingly dependent on clinical investigators and clinical sites to enroll patients in our current and anticipated clinical trials, and the failure to successfully complete the clinical trials could prevent us from obtaining regulatory approvals for or commercializing our products.

As part of our product development efforts, we expect to increasingly rely on clinical investigators and clinical sites to enroll patients in our clinical trials and other third parties to manage such trials and to perform related data collection and analysis. However, we may not be able to control the amount and timing of resources that clinical sites may devote to our clinical trials. If these clinical investigators and clinical sites fail to enroll a sufficient number of patients, fail to ensure compliance by patients with clinical protocols, or fail to comply with regulatory requirements, we may be unable to successfully complete our clinical trials, which could prevent us from obtaining regulatory approvals for our products and commercializing our products, which would have an adverse impact on our business.

If important assumptions about the potential market for our products are inaccurate, or if we have failed to understand what people with insulin-dependent diabetes are seeking in an insulin pump, our business and operating results may be adversely affected.

Our business strategy was developed based on a number of important assumptions about the diabetes industry in general, and the insulin-dependent diabetes market in particular, any one or more of which may prove to be inaccurate or may change over time. For example, we believe that the benefits of insulin pump therapy as compared to other common insulin treatment alternatives will continue to drive growth in the market for insulin pump therapy. In addition, we believe the incidence of diabetes in the United States and worldwide is increasing. However, each of these assumptions may prove to be inaccurate and limited sources exist to compare treatment alternatives and obtain reliable market data. The actual incidence of diabetes, and the actual demand for our products or competitive products, could differ materially from our projections if our assumptions are incorrect. In addition, our strategy of focusing exclusively on the insulin-dependent diabetes market may limit our ability to increase sales or achieve profitability.

Another key element of our business strategy is utilizing market research to understand what people with diabetes are seeking to improve their diabetes therapy management. This strategy underlies our entire product design, marketing and customer support approach and is the basis on which we developed our current products and are pursuing the development of new products. However, our market research is based on interviews, focus groups and online surveys involving people with insulin-dependent diabetes, their caregivers and healthcare providers that represent only a small percentage of the overall insulin-dependent diabetes market. As a result, the responses we received may not be reflective of the broader market and may not provide us accurate insight into the desires of people with insulin-dependent diabetes. In addition, understanding the meaning and significance of the responses received during our market research necessarily requires that analysis be conducted and conclusions be drawn. We may not be able perform an analysis that yields meaningful results, or the conclusions we draw from the analysis could be misleading or incorrect. Moreover, even if our market research has allowed us to better understand the features and functionality consumers are seeking in an insulin pump to improve management of their diabetes therapy, there can be no assurance that consumers will actually purchase our products or that our competitors will not develop products with similar features.

We expect to face complexities frequently encountered by companies in competitive and rapidly-evolving markets, which may make it difficult to evaluate our business and forecast our future sales and operating results.

We operate in a competitive and rapidly-evolving market. Important industry changes, such as the FDA approval and launch of new products by our competitors, as well as changes specific to our business, such as the timing of our launch of new products currently in development and our potential expansion of commercial sales in international markets, combine to make it more difficult for us to predict our future sales and operating results, as well as our expected timeframe to achieve profitability. In assessing our business prospects, you should consider these factors as well as the various risks and difficulties frequently encountered by companies in competitive and rapidly evolving markets, particularly those companies that manufacture and sell medical devices.

These risks include our ability to:

- implement and execute our business strategy;
- manage and improve the productivity of our sales, clinical, marketing and customer service infrastructure to grow sales of our existing and proposed products, and enhance our ability to provide service and support to our customers;
- achieve and maintain market acceptance of our products and increase awareness of our brand among people with insulin-dependent diabetes, their caregivers and healthcare providers;
- comply with a broad range of regulatory requirements within a highly regulated industry;
- enhance our manufacturing capabilities, increase production of products efficiently while maintaining quality standards, and adapt our manufacturing facilities to the production of new products;
- respond effectively to competitive pressures and developments;
- enhance our existing products and develop proposed products;
- obtain and maintain regulatory clearance or approval to enhance our existing products and commercialize proposed products;
- perform clinical trials with respect to our existing products and proposed products; and
- attract, retain and motivate qualified personnel in various areas of our business.

As a result of these or other risks, we may not be able to execute key components of our business strategy, and our business, financial condition and operating results may suffer

The Technology Upgrade Program resulted in accounting complexities that may lead to confusion when comparing our historical and future financial results.

While our Technology Upgrade Program expired on September 30, 2017, it resulted in a number of accounting complexities that made comparisons of our historical and future financial results more difficult. In particular, during the term of the Technology Upgrade Program, generally accepted accounting principles in the United States prevented us from recognizing, at the time of sale, up to 100% of the sales and cost of sales associated with the sale of our insulin pumps to eligible customers. Instead, depending on the type of pump sold, we were required to defer some or all of the sales and cost of sales until a later date. In light of the expiration of the program, we are no longer subject to these accounting deferrals. However, in evaluating our 2017 financial results through December 31, 2017, as a result of the Technology Upgrade Program we recorded incremental net sales of $5.0 million that were previously deferred, with a corresponding increase of $3.1 million in gross profit. It is possible that we may offer other consumer-directed programs in the future, which may result in similar or additional accounting complexities making comparisons of historical and future results more difficult.

Despite our efforts to explain the required accounting treatment for the Technology Upgrade Program, it is possible that there may be confusion when comparing our historical and future financial results, which may cause investors to avoid investing in our common stock and adversely impact our stock price.

Our ability to achieve profitability will depend, in part, on our ability to reduce the per unit cost of our products while also increasing production volume.

We believe our ability to reduce the per unit cost of our insulin pumps and related products will have a significant impact on our ability to achieve profitability. Our cost of sales includes raw materials and component parts, labor costs, product training expenses, freight, reserves for expected warranty costs, royalties, scrap and excess and obsolete inventories. It also includes manufacturing overhead costs, including expenses relating to quality assurance, manufacturing engineering, material procurement and inventory control, facilities, equipment, information technology and operations management. Our warranty reserves require a significant amount of judgment and are primarily estimated based on historical experience. Recently released versions of our pump may not incur warranty costs in a manner similar to previously released pumps. If we are unable to increase our production volumes while sustaining or reducing our overall cost of sales, including through arrangements such as volume purchase discounts, negotiation of pricing and cost reductions with our suppliers, more efficient training programs for customers, improved warranty performance or fluctuations in warranty estimates, it will be difficult to reduce our per unit costs and our ability to achieve profitability will be constrained.

In addition, the per unit cost of our products is significantly impacted by our overall production volumes, and any factors that prevent our products from achieving market acceptance, cause our production volumes to decline, or result in our sales growing at a slower rate than we expect, would significantly impact our expected per unit costs, which would adversely impact our gross margins. In addition, we may not achieve anticipated improvements in manufacturing efficiency as we undertake actions to expand our manufacturing capacity. If we are unable to effectively manage our overall costs while increasing our production volumes and lowering our per unit costs, we may not be able to achieve or sustain profitability, which would have an adverse impact on our business, financial condition and operating results.

Manufacturing risks may adversely affect our ability to manufacture products, which could negatively impact our sales and operating margins.

Our business strategy depends on our ability to manufacture our current and proposed products in sufficient quantities and on a timely basis so as to meet consumer demand, while adhering to product quality standards, complying with regulatory requirements and managing manufacturing costs. We are subject to numerous risks related to our manufacturing capabilities, including:

- quality or reliability defects in product components that we source from third-party suppliers;
- our inability to secure product components in a timely manner, in sufficient quantities and on commercially reasonable terms;
- difficulty identifying and qualifying alternative suppliers for components in a timely manner;
- implementing and maintaining acceptable quality systems while experiencing rapid growth;
- our failure to increase production of products to meet demand;
- our inability to modify production lines and expand manufacturing facilities to enable us to efficiently produce future products or implement changes in current products in response to consumer demand or regulatory requirements;
- our inability to manufacture multiple products simultaneously while utilizing common manufacturing equipment; and
- potential damage to or destruction of our manufacturing equipment or manufacturing facilities.

As demand for our products increases, and as the number of our commercial products expands, we will have to invest additional resources to purchase components, hire and train employees, and enhance our manufacturing processes and quality systems. We may also increase our utilization of third parties to perform contracted manufacturing services for us, and we may need to acquire additional custom designed equipment to support the expansion of our manufacturing capacity. In addition, although we expect some of our products under development to share product features and components with our current products, manufacturing of these products may require modification of our production lines, hiring of specialized employees, identification of new suppliers for specific components, qualifying and implementing additional equipment and procedures, obtaining new regulatory approvals, or developing new manufacturing technologies. Ultimately, it may not be possible for us to manufacture these products at a cost or in quantities sufficient to make these products commercially viable.

If we fail to increase our production capacity to meet consumer demand while also maintaining product quality standards, obtaining and maintaining regulatory approvals, and efficiently managing costs, our sales and operating margins could be negatively impacted, which would have an adverse impact on our financial condition and operating results.

We depend on a limited number of third-party suppliers for certain components and products, and the loss of any of these suppliers, their inability to provide us with an adequate supply of components or products, or our ability to adequately forecast customer demand, could harm our business.

We currently rely, and expect to continue to rely, on third-party suppliers to supply components of our current products and our potential future products, including our disposable cartridges. For example, we rely on plastic injection molding companies to provide plastic molded components, electronic manufacturing suppliers to provide electronic assemblies, and machining companies to provide machined mechanical components. We also purchase all of our infusion sets and pump accessories from third-party suppliers. For our business strategy to be successful, our suppliers must be able to provide us with components and products in sufficient quantities, in compliance with regulatory requirements and quality control standards, in accordance with agreed-upon specifications, at acceptable costs and on a timely basis.

Although we have long-term supply agreements with many of our suppliers, these agreements do not include long-term capacity commitments. Under most of our supply agreements, we make purchases on a purchase order basis and have no obligation to buy any given quantity of components or products until we place written orders, and our suppliers have no obligation to manufacture for us or sell to us any given quantity of components or products until they accept an order. In addition, our suppliers may encounter problems that limit their ability to manufacture components or products for us, including financial difficulties, damage to their manufacturing equipment or facilities or problems with their own suppliers. As a result, our ability to purchase adequate quantities of our components or products may be limited. If we fail to obtain sufficient quantities of high-quality components to meet demand on a timely basis, we could lose customer orders, our reputation may be harmed and our business could suffer.

We generally use a small number of suppliers for our components and products, some of which are located outside the United States including China and Mexico. Depending on a limited number of suppliers exposes us to risks, including limited control over cost such as tariffs, availability, quality and delivery schedules. Moreover, in some cases, we do not have long-standing relationships with our manufacturers and may not be able to convince suppliers to continue to make components available to us unless there is demand for such components from their other customers. As a result, there is a risk that certain components could be discontinued and no longer available to us. We have in the past been, and we may in the future be, required to make significant “last time” purchases of component inventories that are being discontinued by the manufacturer to ensure supply continuity. If any one or more of our suppliers cease to provide us with sufficient quantities of components in a timely manner or on terms acceptable to us, we would have to seek alternative sources of supply. Because of factors such as the proprietary nature of our products, our quality control standards and applicable regulatory requirements, we cannot quickly engage additional or replacement suppliers for some of our critical components. Failure of any of our suppliers to deliver products at the level our business requires could harm our reputation and limit our ability to meet our sales projections, which could have a material adverse effect on our business, financial condition and operating results.

We place orders with our suppliers using our forecasts of customer demand, which are based on a number of assumptions and estimates, in advance of purchase commitments from our customers. As a result, we incur inventory and manufacturing costs in advance of anticipated sales, which sales ultimately may not materialize or may be lower than expected. If we overestimate customer demand, we may experience higher inventory carrying costs and increased excess or obsolete inventory, which would negatively impact our results of operations.

We may also have difficulty obtaining components from other suppliers that are acceptable to the FDA or other regulatory agencies, and the failure of our suppliers to comply with regulatory requirements could expose us to regulatory action including warning letters, product recalls, termination of distribution, product seizures or civil penalties. Such a failure by our suppliers could also require us to cease using the components, seek alternative components or technologies, and modify our products to incorporate alternative components or technologies, which could necessitate additional regulatory approvals. Any disruption of this nature, or any increased expenses associated with any such disruption, could negatively impact our ability to manufacture our products on a timely basis, in sufficient quantities, or at all, which could harm our commercialization efforts and have a material adverse impact on our operating results.

If we cannot reliably manufacture our proprietary infusion set connector, or if it does not achieve market acceptance, we may not achieve our financial projections.

In September 2017, we began commercial sales in the United States of products with our customized t:lock connector, which is used to connect our pump cartridge to our infusion set offerings. Our t:lock connector replaced the standard Luer-lok connector that historically joined an infusion set to our proprietary disposable insulin cartridges. Concurrently, we began selling infusion sets that are compatible with t:lock. Starting in 2018, we initially offered standard Luer-lok cartridges and infusion sets in select international markets, and transitioned to our t:lock connector in international markets during 2019.

We believe the transition to the t:lock connector, for our direct customers and distributors in the United States and international markets, is substantially complete. However, during 2020 there may be limited circumstances where we continue offering both styles of cartridges and infusion sets in international markets to facilitate the transition of customer supplies. Due to the variability in purchasing patterns, standard Luer-lok inventories may not be consumed at the predicted rates and we may be required to offer both styles of insulin cartridges and infusion sets for a longer period than anticipated or we may be left with excess quantities of standard Luer-lok inventories that we cannot sell at standard prices or at all, which would negatively impact our results of operations.

While the t:lock connector was designed based on customer feedback, and all standard Luer-lok infusion sets that we recently offered are now available with the t:lock connector, it is possible that t:lock may not continue to gain market acceptance by current or potential customers, their caregivers, or healthcare providers. Any negative market response to the t:lock connector may impact a current customer's decision to purchase a new pump from us at the time of renewal. In addition, potential customers may decide not to purchase our insulin pumps if they do not prefer the t:lock connector or t:lock compatible infusion sets, which could have a material adverse impact on our business, financial condition and operating results.

Our business operations are primarily located in San Diego, California, and any disruption at one of our facilities could adversely affect our business and operating results.

Substantially all of our current operations are conducted in San Diego, California, including our manufacturing processes, research and development activities and management and administrative functions. In addition, the majority of our inventories of component supplies and finished goods is stored at two facilities in San Diego. We also store finished goods at certain third-party warehouses in California and Texas for the fulfillment of certain customer orders. In the second half of 2019, we commenced limited customer and technical support activities in Boise, Idaho. We expect our operations in Boise to expand substantially during 2020. We take precautions to safeguard our facilities, including by acquiring insurance, employing back-up generators, adopting health and safety protocols and utilizing off-site storage of computer data. However, vandalism, terrorism or a natural disaster, such as an earthquake, fire or flood, or other catastrophic event, could damage or destroy our manufacturing equipment or our inventories of component supplies and finished goods, cause substantial delays in our operations, result in the loss of key information, result in reduced sales, and cause us to incur additional expenses. Our insurance coverage may not be sufficient to provide coverage with respect to the damages incurred in any particular case, and our insurance carrier may deny coverage with respect to all or a portion of our claims. Regardless of the level of insurance coverage or other precautions taken, damage to our facilities may have a material adverse effect on our business, financial condition and operating results.

We may not experience the anticipated operating efficiencies from the transition of our manufacturing and warehousing operations.

At the beginning of 2018 we completed the transition of our manufacturing operations to our Barnes Canyon facility and during the fourth quarter of 2019 we commenced operations at a new logistics warehouse in San Diego. We expect that both of these actions will allow for future capacity for product manufacturing and warehousing expansion. However, we may not experience the anticipated operating efficiencies at either facility. In addition, beginning in 2020 we expect to utilize a third party for a portion of our cartridge manufacturing. If we fail to achieve the operating efficiencies that we anticipate, our manufacturing and operating costs may be greater than expected, which would have a material adverse impact on our operating results. In addition, we or our contract manufacturers may encounter problems during manufacturing for a variety of reasons, including failure to follow specific protocols and procedures, failure to comply with applicable regulations, equipment malfunction, component part supply constraints and environmental factors, any of which could delay or impede our ability to meet customer demand and have a material adverse impact on our business, financial condition and operating results. In addition, because of the custom nature of our cartridge manufacturing process and product components, and the highly regulated nature of our products overall, in the event of any problems with our contract manufacturer, we may not be able to quickly establish additional or alternative arrangements.

We expect that the management and support of our new facilities and the increase of our manufacturing volumes will place significant burdens on our management team, particularly in areas relating to operations, quality, regulatory, facilities and information technology. We may not be able to effectively manage our ongoing manufacturing operations and we may not achieve the operating efficiencies that we anticipate, either from our own facilities or from our use of contract manufacturing. Further, additional increases in demand for our products may require that we further expand our business operations, which may require that we obtain additional facilities, make additional investments in capital equipment or increase our utilization of external third parties to perform contracted manufacturing services for us.

If we do not enhance our product portfolio to meet the demands of our market, we may fail to effectively compete, which may impede our ability to become profitable.

In order to increase our sales and market share in the insulin-dependent diabetes market, we must enhance and broaden our product portfolio in response to the evolving demands of people with insulin-dependent diabetes, their caregivers and healthcare providers, as well as competitive pressures and technologies. We may not be successful in developing, obtaining regulatory approval for, or marketing our proposed products when anticipated, or at all. In addition, notwithstanding our market research efforts, our future products may not be accepted by people with insulin-dependent diabetes, their caregivers, healthcare providers or third-party payors. The success of any proposed product offerings will depend on numerous factors, including our ability to:

- identify the product features and functionality that people with insulin-dependent diabetes, their caregivers and healthcare providers are seeking in an insulin pump, and successfully incorporate those features into our products;
- develop and introduce products in sufficient quantities and in a timely manner;
- offer products at a price that is competitive with other products then available;
- work with third-party payors to obtain reimbursement for our products;
- adequately protect our intellectual property and avoid infringing upon the intellectual property rights of third parties;
- demonstrate the safety and efficacy of proposed products; and
- obtain the necessary regulatory approvals for proposed products.

If we fail to generate demand by continuing to develop products that incorporate features and functionality requested by people with insulin-dependent diabetes, their caregivers or healthcare providers, or if we do not obtain regulatory clearance or approval for proposed products in time to meet market demand, we may be unable to compete and may fail to generate sales sufficient to achieve or maintain profitability. We have in the past experienced, and may in the future experience, delays in various phases of product development and commercialization, including during research and development, manufacturing, limited release testing, marketing and customer education efforts. Any delays in our anticipated regulatory submissions or approvals, or subsequent product launches, may significantly impede our ability to successfully compete in our markets. In particular, such delays could cause customers to delay or forego purchases of our products, or to purchase our competitors' products. Even if we are able to successfully develop proposed products when anticipated, these products may not produce sales in excess of the costs of development, and they may be quickly rendered obsolete by changing consumer preferences or the introduction by our competitors of products embodying new technologies or features, or alternative methods for the treatment of diabetes.

Any concerns regarding the safety and efficacy of our products could limit sales and cause unforeseen negative effects to our business prospects and financial results.

Currently there are only limited published studies to evaluate the safety or effectiveness of our products in a controlled setting. As a result, people with insulin-dependent diabetes and healthcare providers may be slower to adopt or recommend our products, we may not have comparative data that our competitors have or are generating, third-party payors may not be willing to provide coverage or reimbursement for our products and we may be subject to greater regulatory and product liability risks. These and other factors could slow the adoption of our products and result in our sales being lower than anticipated. In addition, future studies or clinical experience may indicate that treatment with our products is not superior to treatment with competitive products. Such results could slow the adoption of our products and significantly reduce our sales, which could prevent us from achieving our forecasted sales targets or achieving or sustaining profitability.

If the results of clinical studies or other experience, such as our monitoring or investigation of customer complaints, indicate that our products may cause or create an unacceptable risk of unexpected or serious complications or other unforeseen negative effects, we could be required to inform our customers of these risks or complications or, in more serious circumstances, we could be subject to mandatory product recalls, suspension or withdrawal of FDA clearance or approval, which could result in significant legal liability, harm to our reputation, and a decline in our product sales.

Any alleged illness or injury associated with any of our products or product recalls may negatively impact our financial results and business prospects depending on a number of factors, including the scope and seriousness of the problem, degree of publicity, reaction of our customers and healthcare professionals, competitive response, and consumer perceptions generally. Even if such an allegation or product liability claim lacks merit, cannot be substantiated, is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness, injury or death could adversely affect our reputation with customers, healthcare professionals, third-party payors, and existing and potential collaborators, and could adversely affect our operating results and cause a decline in our stock price. Furthermore, general concerns regarding the perceived safety or reliability of any of our products, or any component thereof, may have a similar adverse effect on us.

We may enter into collaborations, licensing arrangements, joint ventures, strategic alliances or partnerships with third parties that may not result in the development of commercially viable products or the generation of significant future revenues.

In the ordinary course of our business, we may enter into collaborations, licensing arrangements, joint ventures, strategic alliances or partnerships to develop proposed products or technologies, pursue new markets, or protect our intellectual property assets. We may also elect to amend or modify similar agreements that we already have in place. Proposing, negotiating and implementing collaborations, licensing arrangements, joint ventures, strategic alliances or partnerships may be a lengthy and complex process, and may subject us to business risks. For example, other companies, including those with substantially greater financial, marketing, sales, technology or other business resources, may compete with us for these opportunities, or may be the counterparty in any such arrangements. We may not be able to identify or complete any such collaboration in a timely manner, on a cost-effective basis, on acceptable terms or at all. In addition, we may not realize the anticipated benefits of any such collaborations that we do identify and complete. In particular, these collaborations may not result in the development of products or technologies that achieve commercial success or result in positive financial results, or may otherwise fail to have the intended impact on our business.

Additionally, we may not be in a position to exercise sole decision-making authority regarding a collaboration, licensing or other similar arrangement, which could create the potential risk of creating impasses on decisions. Further, our collaborators and business partners may have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals. It is possible that conflicts may arise with our collaborators and other business partners, such as conflicts concerning the achievement of performance milestones, or the interpretation of significant terms under any agreement, such as those related to financial obligations, termination rights or the ownership or control of intellectual property developed during the collaboration. If any conflicts arise with our current or future collaborators, they may act in their self-interest, which may be adverse to our best interest, and they may breach their obligations to us. In addition, we have limited control over the amount and timing of resources that our current collaborators, such as Dexcom and TypeZero, or any future collaborators devote to our arrangement with them or our future products. Disputes between us and our current, future or potential collaborators may result in litigation or arbitration which would increase our expenses and divert the attention of our management. Further, these transactions and arrangements are contractual in nature and may be terminated or dissolved under the terms of the applicable agreements and, in such event, we may not continue to have rights to the products relating to such transaction or arrangement or may need to purchase such rights at a premium.

For example, we have entered into multiple development agreements with Dexcom, which provide us non-exclusive licenses to integrate various currently available generations of Dexcom CGM technology with our insulin pump products. Our agreements with Dexcom related to G5 and G6 CGM currently run until June 2020 with automatic one-year renewals unless a party provides prior notice to the contrary. Under certain circumstances, these agreements may be terminated by either party without cause or on short notice. Our current agreements with Dexcom do not grant us rights to integrate future generations of Dexcom CGM technology with any of our current or future products. Termination of any of our agreements with Dexcom would require us to redesign certain current products and products under development, and attempt to integrate an alternative CGM system into our insulin pump systems, which would require significant development and regulatory activities that could result in an interruption or substantial delay in the availability of the product to our customers. The termination of our existing commercial agreements with Dexcom would disrupt our ability to commercialize our existing products and our development of future products, which could have a material adverse impact on our financial condition and results of operations, negatively impact our ability to compete and cause our stock price to decline.

We operate our business in regions subject to natural disasters and other catastrophic events, and any disruption to our business resulting from natural disasters will adversely affect our revenue and results of operations.

We operate our business in regions subject to natural disasters, including earthquakes, hurricanes, floods, fires and other catastrophic events. For example, a portion of our administrative offices located in San Diego are in an area that is prone to flooding, which has occasionally temporarily disrupted our business operations. Any natural disaster could adversely affect our ability to conduct business and provide products and services to our customers, and the insurance we maintain may not be adequate to cover our losses resulting from any business interruption resulting from a natural disaster or other catastrophic events. Any future disruptions to our operations could have a material adverse impact on our financial condition and results of operations in future periods.

A security breach or other significant disruption to our information technology systems, or failures of our pumps' software to perform as we anticipate, could materially disrupt our operations or result in the loss, theft, misuse, unauthorized disclosure, or unauthorized access to sensitive company information relating to our customers, suppliers or employees, which could damage our relationships, expose us to litigation or regulatory proceedings, or harm our reputation, any of which could have an adverse and material effect on our business, financial condition and operating results.

The efficient operation of our business depends on our information technology and communication systems, as well as those of our third-party business partners. We rely on such systems to effectively store, process and transit proprietary sales and marketing data, accounting and financial functions, manufacturing and quality records, inventory management, product development tasks, research and development data, customer service and technical support functions. Our information technology systems, including those that support t:connect, our current and future mobile applications, as well as those involved in the operation of our Tandem Device Updater, are vulnerable to damage or interruption from a number of causes, including earthquakes, fires, floods and other natural disasters, terrorist attacks, attacks by computer viruses or hackers, malware, ransomware or other destructive software, cyberattacks, power losses, and computer system or data network failures. Should any of those risks occur, it could adversely impact the availability, confidentiality and integrity of information assets contained in those systems.

Our business also involves the storage and transmission of a substantial amount of confidential, personal, or other sensitive information, including health information and other personal information relating to our customers, the personal information of our employees and other individuals, and our proprietary, financial, operational or strategic information. Should any of the foregoing risks occur, it could also result in the loss, theft, misuse, unauthorized disclosure, or unauthorized access of such sensitive information, which could lead to significant reputational or competitive harm, litigation involving us or our business partners, regulatory proceedings, or substantial liabilities, fines, penalties or expenses. As a result, we strive to maintain and regularly update reasonable security measures, and to respond quickly and effectively if and when data security incidents do occur. Like many businesses, we are subject to numerous data privacy and security risks, including threats arising from computer viruses or hackers, cyberattacks and ransom-ware attacks. The continuously evolving nature of those risks may prevent us from protecting all of this information despite our efforts to do so. Many of our service providers are subject to similar risks. Whether or not our security measures and those of our service providers are ultimately successful, our expenditures on those measures could have an adverse impact on our financial condition and results of operations, and divert management's attention from pursuing our strategic objectives. From time to time we have experienced various threats to our information technology systems, and we are currently investigating the extent of unauthorized access to data on our networks following a recent phishing attack. As a result of the ongoing investigation we may determine that substantial confidential, personal or other sensitive information was compromised, and in that case we may be subject to regulatory proceedings and substantial fines, penalties and expenses, as well as significant reputational harm, which may have a material adverse impact on us. We are unable to predict the direct or indirect impact of any such incidents to our business.

In addition to the risks regarding information technology systems and processing of sensitive information, our insulin pumps and other products rely on software that could contain unanticipated vulnerabilities, which could make our products subject to computer viruses, cyber-attacks, or failures. These risks significantly increased after July 2016, when we received FDA clearance of our Tandem Device Updater, which enables customers to remotely update software on their insulin pumps and may increase further following the launch of our new mobile application. We may also face new risks relating to our information technology systems as we continue to commercialize our products outside of the United States and are subject to additional regulations relating to the use and protection of personal information and as we launch new mobile applications.

The failure of our or our service providers' information technology systems or our pumps' software or other mobile applications to perform as we anticipate, or our failure to effectively implement new information technology systems and privacy policies and controls, could disrupt our entire operation or adversely affect our software products. For example, we market our Tandem Device Updater as having the unique capability to deploy software updates to our pumps, which may allow customers remote access to new and enhanced features. The failure of our Tandem Device Updater to provide software updates as we anticipate, including as a result of our inability to secure and maintain necessary regulatory approvals, the inability of our pumps to properly receive software updates, errors or viruses embedded within the software being transmitted, or the failure of our customers to properly utilize the system to complete the update, could result in decreased sales, increased warranty costs, and harm to our reputation, any of which could have a material adverse effect on our business, financial condition and operating results.

If we are found to have violated laws concerning the privacy and security of patient health information or other personal information, we could be subject to civil or criminal penalties, which could increase our liabilities and harm our reputation or our business.

There are a number of domestic and international laws protecting the privacy and security of personal information, including HIPAA and related regulations, PIPEDA, and GDPR, or similar applicable laws. These laws place limits on how we may collect, use, share and store medical information and other personal information, and they impose obligations to protect that information against unauthorized access, use, loss, and disclosure.

If we, or any of our service providers who have access to the personal data for which we are responsible, are found to be in violation of the privacy or security requirements of HIPAA, PIPEDA, or GDPR, we could be subject to civil or criminal penalties, which could increase our liabilities, harm our reputation and have a material adverse effect on our business, financial condition and operating results. Although we utilize a variety of measures to secure the data that we control, even compliant entities can experience security breaches or have inadvertent failures despite employing reasonable practices and safeguards.

We may also face new risks relating to data privacy and security as the United States, individual U.S. states, E.U. member states, and other international jurisdictions adopt or implement new data privacy and security laws and regulations as we continue to commercialize our products worldwide. For example, the California Consumer Privacy Act, which took effect on January 1, 2020, may impose additional requirements on us and increase our regulatory and litigation risk. As we continue to expand, our business will need to adapt to meet these and other similar legal requirements.

We depend on the knowledge and skills of our senior management and other key employees, and if we are unable to retain and motivate them or recruit additional qualified personnel, our business may suffer.

We have benefited substantially from the leadership and performance of our senior management, as well as certain key employees. For example, key members of our management have experience successfully scaling an early stage medical device company to achieve profitability. Our success will depend on our ability to retain our current management and key employees, and to attract and retain qualified personnel in the future. Competition for senior management and key employees in our industry is intense and we cannot guarantee that we will be able to retain our personnel or attract new, qualified personnel. The loss of the services of certain members of our senior management or key employees could prevent or delay the implementation and completion of our strategic objectives, or divert management's attention to seeking qualified replacements. Each member of senior management, as well as our key employees may terminate employment without notice and without cause or good reason. The members of our senior management are not subject to non-competition agreements. Accordingly, the adverse effect resulting from the loss of certain members of senior management could be compounded by our inability to prevent them from competing with us.

We depend upon key employees in a competitive market, and if we are unable to provide meaningful equity incentives to retain key personnel, it could adversely affect our ability to execute our business strategy.

We are highly dependent upon the members of our management team, as well as other key employees. In our industry, it is common to attract and retain executive talent and other employees with compensation packages that include a significant equity component. We have issued, and may continue to issue, additional equity incentives that we believe will enhance our ability to retain our current key employees and attract the necessary additional executive talent. It may be more difficult to continue to incentivize employees during a period of rapid growth in our overall headcount while limiting the utilization of the share reserve under our current stock incentive plans. However, even if we issue significant additional equity incentives, there can be no assurance that we will be able to attract and retain key executive talent. A loss of any of our key personnel, or our inability to hire new personnel, may have a material adverse effect on our ability to execute our business strategy.

We began commercialization of our products outside of the United States, which may result in a variety of risks associated with international operations that could materially adversely affect our business.

During 2018, we began commercialization of the t:slim X2 insulin pump in select geographies outside of the United States. We have limited experience commercializing our products outside of the United States and expect that we will be subject to additional risks related to international business markets, including:

- different regulatory requirements for product approvals in foreign countries;
- differing U.S. and foreign medical device import and export rules;
- more restrictive privacy laws relating to personal information of end users and employees, including GDPR;
- reduced protection for our intellectual property rights in foreign countries;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- different reimbursement systems;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad or with U.S. regulations that would apply to activities in such foreign jurisdictions, such as the FCPA;
- foreign taxes, including withholding of payroll taxes;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenues, and other obligations incident to doing business in another country; and
- business interruptions resulting from geopolitical actions, including war and terrorism, natural disasters, or incidence of disease.

In addition, entry into international markets may require significant financial resources, impose additional demands on our manufacturing, quality, regulatory, customer support and other general and administrative personnel, and could divert management's attention from managing our core business. We have limited experience with regulatory environments and market practices internationally, and we may not be able to penetrate or successfully operate in new markets. Accordingly, if we are unable to expand internationally, manage the complexity of our global operations successfully or if we incur unanticipated expenses, we may not achieve the expected benefits of this expansion and our financial condition and results of operations could be materially and adversely impacted.

We may seek to grow our business through acquisitions of complementary products or technologies, and the failure to successfully manage acquisitions, or the failure to integrate them with our existing business, could have a material adverse effect on our business, financial condition and operating results.

From time to time, we may consider opportunities to acquire other products or technologies that may enhance our product platform or technology, expand the breadth of our markets or customer base, or advance our business strategies. Potential acquisitions involve numerous risks, including:

- problems assimilating the acquired products or technologies;
- issues maintaining uniform standards, procedures, controls and policies;
- unanticipated costs associated with acquisitions;
- diversion of management's attention from our existing business;
- risks associated with entering new markets in which we have limited or no experience; and

- increased legal and accounting costs relating to the acquisitions or to compliance with regulatory matters.

We have no current commitments with respect to any acquisition. We do not know if we will be able to identify acquisitions we deem suitable, whether we will be able to successfully complete any such acquisitions on favorable terms or at all, or whether we will be able to successfully integrate any acquired products or technologies into our business. Our potential inability to integrate any acquired products or technologies effectively may adversely affect our business, operating results and financial condition.

Risks Related to our Financial Results and Need for Financing

We may need or otherwise determine to raise additional funds in the future and if we are unable to raise additional funds when necessary or desirable, we may not be able to achieve our strategic objectives.

At December 31, 2019, we had $176.5 million in cash, cash equivalents and short-term investments. Our management expects the continued growth of our business, including the expansion of our customer service infrastructure to support our growing base of customers, our plans to expand commercial sales of our products outside of the United States, the growth of our manufacturing and warehousing operations, increase the the size of our facility footprint due to increasing headcount and additional research and development activities, will continue to increase our expenses. In addition, the amount of our future product sales is difficult to predict and actual sales may not be in line with our forecasts. Accordingly, our future capital requirements will depend on many factors, including:

- the revenue generated by sales of our insulin pump products, and the related insulin cartridges and infusion sets, and any other future products that we may develop and commercialize;
- the gross profits and gross margin we realize from the sales we generate;
- the costs associated with maintaining and expanding an appropriate sales, clinical and marketing infrastructure;
- the expenses we incur or other capital expenditures we make to maintain or enhance our manufacturing operations, including leasing additional property, hiring additional personnel, purchasing additional manufacturing equipment and other measures taken to add manufacturing capacity;
- the expenses associated with developing and commercializing our proposed products or technologies;
- the costs associated with maintaining and expanding our customer service infrastructure;
- the cost of obtaining and maintaining regulatory clearance or approval for our products and our manufacturing facilities;
- the cost of ongoing compliance with legal and regulatory requirements;
- the expenses we incur in connection with potential litigation or governmental investigations;
- expenses we may incur or other financial commitments we may make in connection with current and potential new business or commercial collaborations, development agreements or licensing arrangements;
- anticipated or unanticipated capital expenditures; and
- unanticipated general and administrative expenses.

As a result of these and other factors we may in the future seek additional capital from public or private offerings of our equity or debt securities, or from other sources. If we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, we may incur significant financing or debt service costs, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. In addition, if we raise additional funds through collaborations, licensing, joint ventures, strategic alliances, partnership arrangements or other similar arrangements, it may be necessary to relinquish valuable rights to our potential future products or proprietary technologies, or grant licenses on terms that are not favorable to us.

If we are unable to raise additional capital when necessary, we may not be able to maintain our existing sales, marketing, clinical and customer service infrastructure, enhance our current products or develop new products, take advantage of future opportunities, respond to competitive pressures, changes in supplier relationships, or unanticipated changes in customer demand. Any of these events could adversely affect our ability to achieve our strategic objectives, which could have a material adverse effect on our business, financial condition and operating results.

Our operating results may fluctuate significantly from quarter to quarter.

There has been and may continue to be meaningful variability in our operating results from quarter to quarter, as well as within each quarter, especially around the time of anticipated new product launches or regulatory approvals by us or our competitors, and as a result of the commercial launch of our products in geographies outside of the United States. Our operating results, and the variability of these operating results, will be affected by numerous factors, including:

- our ability to increase sales and gross profit from our insulin pump products, including the related insulin cartridges and infusion sets, and to commercialize and sell our future products;
- the number and mix of our products sold in each quarter;
- acceptance of our products by people with insulin-dependent diabetes, their caregivers, healthcare providers and third-party payors;
- the pricing of our products and competitive products, including the use of discounts, rebates or other financial incentives by us or our competitors;
- the effect of third-party coverage and reimbursement policies;
- our ability to maintain our existing infrastructure;
- the amount of, and the timing of the payment for, insurance deductibles required to be paid by our customers and potential customers under their existing insurance plans;
- interruption in the manufacturing or distribution of our products;
- our ability to simultaneously manufacture multiple products that meet quality, reliability and regulatory requirements;
- seasonality and other factors affecting the timing of purchases of our products;
- timing of new product offerings, acquisitions, licenses or other significant events by us or our competitors;
- results of clinical research and trials on our existing and future products;
- the ability of our suppliers to timely provide us with an adequate supply of components that meet our requirements for product quality and reliability;
- regulatory clearance or approvals affecting our products or those of our competitors; and
- the timing of revenue and expense recognition associated with our product sales pursuant to applicable accounting standards.

In addition, we expect our operating expenses will continue to increase as we expand our business, which may exacerbate the quarterly fluctuations in our operating results. If our quarterly or annual operating results fall below the expectation of investors or securities analysts, the price of our common stock could decline substantially. Further, any quarterly or annual fluctuations in our operating results may, in turn, cause the price of our common stock to fluctuate substantially, and these price fluctuations could result in further pressure on our stock price. We believe quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

Risks Related to our Intellectual Property and Potential Litigation

Our ability to protect our intellectual property and proprietary technology is uncertain.

We rely primarily on patent, trademark and trade secret laws, as well as confidentiality and non-disclosure agreements, to protect our proprietary technologies. As of December 31, 2019, our patent portfolio consisted of approximately 86 issued U.S. patents and 68 pending U.S. patent applications. Of these, our issued U.S. patents expire between approximately 2021 and 2036. We are also seeking patent protection for our proprietary technologies in other countries throughout the world. In addition, we have 16 U.S. trademark registrations and 23 foreign trademark registrations.

We have applied for patent protection relating to certain existing and proposed products and processes. If we fail to file a patent application timely in any jurisdiction, we may be precluded from doing so at a later date. Further, we cannot assure you that any of our patent applications will be approved in a timely manner or at all. The rights granted to us under our patents, and the rights we are seeking to have granted in our pending patent applications, may not be meaningful or provide us with any commercial advantage. In addition, those rights could be opposed, contested or circumvented by our competitors, or be declared invalid or unenforceable in judicial or administrative proceedings. The failure of our patents to adequately protect our technology might make it easier for our competitors to offer the same or similar products or technologies. Even if we are successful in receiving patent protection for certain products and processes, our competitors may be able to design around our patents or develop products that provide outcomes which are comparable to ours without infringing on our intellectual property rights. Due to differences between foreign and U.S. patent laws, our patented intellectual property rights may not receive the same degree of protection in foreign countries as they would in the United States. Even if patents are granted outside of the United States, effective enforcement in those countries may not be available.

We rely on our trademarks and trade names to distinguish our products from the products of our competitors, and have registered or applied to register many of these trademarks. We cannot assure you that our current or future trademark applications will be approved in a timely manner or at all. From time to time, third parties oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote additional resources to marketing new brands. Further, we cannot assure you that competitors will not infringe upon our trademarks, or that we will have adequate resources to enforce our trademarks.

We have entered into confidentiality agreements and intellectual property assignment agreements with our officers, employees, temporary employees and consultants regarding our intellectual property and proprietary technology. We also enter into confidentiality agreements with potential collaborators and other counter-parties, and the terms of our collaboration agreements typically contain provisions governing the ownership and control of intellectual property. In the event of unauthorized use or disclosure or other breaches of those agreements, we may not be provided with meaningful protection for our trade secrets or other proprietary information.

If a competitor infringes upon one of our patents, trademarks or other intellectual property rights, enforcing those patents, trademarks and other rights may be difficult, expensive and time consuming. Patent law relating to the scope of claims in the industry in which we operate is subject to rapid change and constant evolution and, consequently, patent positions in our industry can be uncertain. Even if successful, litigation to defend our patents and trademarks against challenges or to enforce our intellectual property rights could divert management’s attention from managing our business. Moreover, we may not have sufficient resources or incentive to defend our patents or trademarks against challenges or to enforce our intellectual property rights. Litigation also puts our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing. Additionally, pursuing litigation may provoke third parties to assert counterclaims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially valuable. The occurrence of any of these events may have a material adverse effect on our business, financial condition and operating results.

The medical device industry is characterized by patent litigation, and from time to time, we may be subject to litigation that could be costly, result in the diversion of management's time and efforts, or require us to pay damages.

Our success will depend in part on not infringing the patents or violating the other proprietary rights of third parties. Significant litigation regarding patent rights exists in our industry. Our competitors in both the United States and abroad, many of which have substantially greater resources and have made substantial investments in competing technologies, may have applied for or obtained or may in the future apply for and obtain, patents that will prevent, limit or otherwise interfere with our ability to make and sell our products. The large number of patents, the rapid rate of new patent issuances, and the complexities of the technology involved increase the risk of patent litigation.

From time to time, we may receive communications from third parties alleging our infringement of their intellectual property rights or offering a license to intellectual property that is alleged to relate to products that we are currently developing. Any intellectual property-related discussions, disputes or litigation could force us to do one or more of the following:

- stop selling our products or using technology that contains the allegedly infringing intellectual property;
- prevent or limit our ability to sell a product that we are currently developing;
- incur significant legal expenses;
- pay substantial damages to the party whose intellectual property rights we are allegedly infringing;
- redesign those products that contain the allegedly infringing intellectual property; or
- attempt to obtain a license to the relevant intellectual property from third parties, which may not be available on reasonable terms or at all.

We do not currently maintain insurance to cover the expense or any liability that may arise from an intellectual property dispute with a third party. Any litigation or claim against us, even those without merit, or even preparing for a potential dispute or litigation before it arises, may cause us to incur substantial costs, and could place a significant strain on our financial resources and divert the attention of management from our core business. Any litigation or claim against us may also harm our reputation. Further, as we launch new products and increase our sales, and the number of participants in the diabetes market increases, we believe the possibility of our involvement in intellectual property disputes will increase.

We may be subject to damages resulting from claims that we, or our employees, have wrongfully used or disclosed alleged trade secrets of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.

Many of our employees were previously employed at other medical device companies, including those that are our direct competitors or could potentially become our direct competitors. In some cases, those employees joined our company recently. We may be subject to claims that we, or our employees, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of these former employers or competitors. In addition, we have been and may in the future be subject to allegations that we caused an employee to breach the terms of his or her non-competition or non-solicitation agreement. Litigation may be necessary to defend against these claims. Even if we successfully defend against these claims, litigation could cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation. If our defense to those claims fails, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. We cannot guarantee that this type of litigation will not continue, and any future litigation or the threat thereof may adversely affect our ability to hire additional direct sales representatives. A loss of key personnel or their work product could hamper or prevent our ability to commercialize proposed products, which could have an adverse effect on our business, financial condition and operating results.

We may incur product liability losses, and insurance coverage may be inadequate or unavailable to cover these losses.

Our business exposes us to potential product liability claims that are inherent in the design, manufacture, testing and sale of medical devices. We are subject to product liability lawsuits alleging that component failures, manufacturing flaws, design defects or inadequate disclosure of product-related risks or product-related information resulted in an unsafe condition, injury or death to customers. The risk of one or more product liability claims or lawsuits may be even greater after we launch new products with new features or enter new markets where we have no prior experience selling our products and rely on newly-hired staff or new independent distributors or contractors to provide new customer training and customer support. In addition, the misuse of our products or the failure of customers to adhere to operating guidelines could cause significant harm to customers, including death, which could result in product liability claims. We may also identify deficiencies in our products that we determine are immaterial and do not pose safety risks, and therefore decide not to initiate a voluntary recall. However, any such deficiency may be more significant than we expect and lead to product liability claims. Product liability lawsuits and claims, safety alerts or product recalls, with or without merit, could cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business, harm our reputation and adversely affect our ability to attract and retain customers, any of which could have a material adverse effect on our business, financial condition and operating results.

Although we maintain third-party product liability insurance coverage, it is possible that claims against us may exceed the coverage limits of our insurance policies. Even if any product liability loss is covered by an insurance policy, these policies typically have substantial deductibles for which we are responsible. In addition, we expect the cost of our product liability insurance will increase as our product sales increase and we may also increase the amount of our deductibles over time. Product liability claims in excess of applicable insurance coverage could have a material adverse effect on our business, financial condition and operating results. In addition, any product liability claim brought against us, with or without merit, could result in further increases of our product liability insurance premiums. Insurance coverage varies in cost and can be difficult to obtain, and we cannot guarantee that we will be able to obtain insurance coverage in the future on terms acceptable to us or at all. Our inability to obtain sufficient insurance coverage to protect again potential product liability claims could prevent or limit our commercialization of current products or products currently under development.

Risks Related to our Legal and Regulatory Environment

Our products and operations are subject to extensive governmental regulation, and failure to comply with applicable requirements could cause our business to suffer.

The medical device industry is regulated extensively by governmental authorities, principally the FDA and corresponding state regulatory agencies. The regulations are very complex and are subject to rapid change and varying interpretations. Regulatory restrictions or changes could limit our ability to carry on or expand our operations or result in higher than anticipated costs or lower than anticipated sales. The FDA and other U.S. governmental agencies regulate numerous elements of our business, including:

- product design and development;
- pre-clinical and clinical testing and trials;
- product safety;
- establishment registration and product listing;
- labeling and storage;
- marketing, manufacturing, sales and distribution;
- pre-market clearance or approval;
- servicing and post-market surveillance;
- advertising and promotion; and
- recalls and field safety corrective actions.

Before we can market or sell a new regulated product or a significant modification to an existing product in the United States, we must obtain either clearance under Section 510(k) of the FDCA or approval of a PMA application from the FDA, unless an exemption from pre-market review applies. In the 510(k) clearance process, the FDA must determine that a proposed device is "substantially equivalent" to a device legally on the market, known as a "predicate" device, with respect to intended use, technology and safety and effectiveness, in order to clear the proposed device for marketing. Clinical data is sometimes required to support substantial equivalence. The PMA pathway requires an applicant to demonstrate the safety and effectiveness of the device based on extensive data. The PMA process is typically required for devices that are deemed to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices. Products that are approved through a PMA application generally need FDA approval before they can be modified. Similarly, some modifications made to products cleared through the 510(k) clearance process may require a new 510(k) submission. The process of obtaining regulatory clearances or approvals to market a medical device can be costly and time-consuming, and we may not be able to obtain these clearances or approvals on a timely basis or at all for our proposed products.

We may pursue 510(k) clearance for additional products or product modifications in the future. If the FDA requires us to go through a more rigorous examination for future products or modifications to existing products than we had expected, our product introductions or modifications could be delayed or canceled, which could cause our sales to decline or to not increase in line with our forecasts.

The FDA can delay, limit or deny clearance or approval of one of our devices for many reasons, including:

- our inability to demonstrate that our products are safe and effective for their intended users;
- the data from our clinical trials may be insufficient to support clearance or approval; and
- failure of the manufacturing process or facilities we use to meet applicable requirements.

In addition, the FDA may change its clearance and approval policies, adopt additional regulations or revise existing regulations, or take other actions which may prevent or delay approval or clearance of our products under development or impact our ability to modify our currently cleared or approved products on a timely basis.

Any delay in, or failure to receive or maintain, clearance or approval for our products under development could prevent us from generating revenue from these products or achieving profitability. Moreover, customers may defer purchasing our existing products in anticipation of a new product launch. Additionally, the FDA and other regulatory authorities have broad enforcement powers. Regulatory enforcement or inquiries, or other increased scrutiny on us, could dissuade some customers from using our products and adversely affect our reputation and the perceived safety and efficacy of our products.

Failure to comply with applicable regulations could jeopardize our ability to sell our products and result in enforcement actions such as fines, civil penalties, injunctions, warning letters, recalls of products, delays in the introduction of products into the market, refusal of the FDA or other regulators to grant future clearances or approvals, delays by the FDA or other regulators in granting clearances or approvals, and the suspension or withdrawal of existing approvals by the FDA or other regulators. Any of these sanctions could result in higher than anticipated costs, lower than anticipated sales, and diversion of management time and resources, any of which could have a material adverse effect on our reputation, business, financial condition and operating results.

Further, we commenced commercial sales of our products in select international markets during the third quarter of 2018. As we expand our operations outside of the United States and launch new products, we will become subject to various additional regulatory and legal requirements under the applicable laws and regulations of the international markets we enter. These additional regulatory requirements may involve significant costs and expenditures and, if we are not able to comply with any such requirements, our international expansion and business could be significantly harmed.

Modifications to our products may require new 510(k) clearances or PMAs, or may require us to cease marketing or recall the modified products until clearances are obtained.

Any modification to a 510(k)-cleared device that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, design, or manufacture, requires a new 510(k) clearance or, possibly, a PMA. The FDA requires every manufacturer to make this determination in the first instance, but the FDA may review any manufacturer's decision. The FDA may not agree with our decisions regarding whether new clearances or approvals are necessary for changes that we have made to our products. If the FDA disagrees with our determination and requires us to submit new 510(k) notifications or PMAs for modifications to our previously cleared or approved products, for which we concluded that new clearances or approvals were not necessary, we may be required to cease marketing or to recall the modified product until we obtain clearance or approval, and we may be subject to significant regulatory fines or penalties.

Further, the FDA's ongoing review of and potential changes to the 510(k) program may make it more difficult for us to modify our previously cleared products, either by imposing stricter requirements on when a new 510(k) for a modification to a previously cleared product must be submitted, or by applying more onerous review criteria to such submissions.

If we or our third-party suppliers, contract manufacturers and service providers fail to comply with the FDA's good manufacturing practice regulations, this could impair our ability to market our products in a cost-effective and timely manner.

We and our third-party suppliers, contract manufacturers and service providers are required to comply with the FDA's Quality System Regulation (QSR), which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, sterilization, storage and shipping of our products. The FDA audits compliance with the QSR through periodic announced and unannounced inspections of manufacturing and other facilities. The FDA may impose inspections or audits at any time. We cannot assure you that our facilities or our contract manufacturer or component suppliers' facilities would pass any future quality system inspection or audit. If we or our suppliers, contract manufacturers and service providers have significant non-compliance issues or if any corrective action plan that we or our suppliers, contract manufacturers or service providers propose in response to observed deficiencies is not sufficient, the FDA could take enforcement action against us and the manufacturing or distribution of our devices could be interrupted and our operations disrupted.

If we, or our suppliers, manufacturers and service providers, fail to adhere to QSR requirements, this could delay production of our products and lead to fines, difficulties in obtaining regulatory clearances, recalls, enforcement actions, including injunctive relief or consent decrees, or other consequences, which could, in turn, have a material adverse effect on our financial condition or results of operations.

A recall of our products, or the discovery of serious safety issues with our products, could have a significant negative impact on us.

The FDA has the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture or in the event that a product poses an unacceptable risk to health. The FDA has broad discretion to require the recall of a product or to require that manufacturers alert customers of safety risks, and may do so even in circumstances where we do not believe our product poses an unacceptable risk to health. In addition, manufacturers may, under their own initiative, recall a product if any material deficiency in a product is found or alert customers of unanticipated safety risks. A government-mandated or voluntary recall by us, one of our distributors or any of our other third-party suppliers could occur as a result of an unacceptable risk to health, component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls or notices relating to any products that we distribute would divert managerial and financial resources, and have an adverse effect on our reputation, financial condition and operating results.

Further, under the FDA's Medical Device Reporting regulations, we are required to report to the FDA any incident in which our product may have caused or contributed to a death or serious injury or in which our product malfunctioned and, if the malfunction were to recur, would likely cause or contribute to death or serious injury. Repeated product malfunctions may result in a voluntary or involuntary product recall, which could divert managerial and financial resources, impair our ability to manufacture our products in a cost-effective and timely manner and have an adverse effect on our reputation, financial condition and operating results.

Any adverse event involving any products that we distribute could result in future voluntary corrective actions, such as recalls or customer notifications, or regulatory agency action, which could include inspection, mandatory recall or other enforcement action. Any corrective action, whether voluntary or involuntary, will require the dedication of our time and capital, distract management from operating our business and may harm our reputation and financial results.

Our failure to comply with U.S. federal and state fraud and abuse laws, including anti-kickback laws and other U.S. federal and state anti-referral laws, could have a material, adverse impact on our business.

There are numerous U.S. federal and state laws pertaining to healthcare fraud and abuse, including anti-kickback laws, physician self-referral laws, and false claims laws. Our relationships with healthcare providers and other third parties are subject to scrutiny under these laws. Violations of these laws are punishable by criminal and civil sanctions, including, in some instances, imprisonment and exclusion from participation in federal and state healthcare programs, including the Medicare, Medicaid and Veterans Administration health programs.

Healthcare fraud and abuse regulations are complex and evolving, and even minor irregularities can potentially give rise to claims that a statute or prohibition has been violated. The laws that may affect our ability to operate include:

- the federal healthcare programs' Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering, paying or providing remuneration (including any kickback, bribe or rebate), directly or indirectly, overtly or covertly, in cash or in kind in exchange for or to induce either the referral of an individual for, or the purchase, lease, order or recommendation of, any good or service for which payment may be made under federal healthcare programs such as the Medicare and state Medicaid programs;
- federal and state false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, state Medicaid programs, or other third-party payors that are false or fraudulent;
- federal and state physician referral laws, such as the Stark Law, that prohibit a physician from referring Medicare or Medicaid patients to an entity providing "designated health services," including a company that furnishes durable medical equipment, with which the physician has a financial relationship unless that financial relationship meets an exception;
- federal and state laws, such as the Civil Monetary Penalties Law, that prohibit an individual or entity from offering or transferring remuneration to any person eligible for benefits under a federal or state health care program which such individual or entity knows or should know are likely to influence such eligible individual's choice of provider, practitioner or supplier of any item or service for which payment may be made under federal health care programs such as Medicare and state Medicaid programs;
- federal criminal laws enacted as part of HIPAA that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- federal disclosure laws, such as the Physician Payments Sunshine Act, which require certain manufacturers, including medical device manufacturers, to submit annual data pertaining to payments or other transfers of value to covered recipients, including physicians;
- the Federal Trade Commission Act and similar laws regulating advertisement and consumer protections;
- foreign and U.S. state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers; and
- federal and state laws governing the use, disclosure and security of personal information, including protected health information, such as HIPAA and the Health Information Technology for Economic and Clinical Health.

Possible sanctions for violation of these laws include monetary fines, civil and criminal penalties, exclusion from Medicare, Medicaid and other federal healthcare programs, and forfeiture of amounts collected in violation of those prohibitions and in some circumstances, treble damages. Any violation of these laws, or any action against us for violation of these laws, even if we successfully defend against it, could result in a material adverse effect on our reputation, business, financial condition and operating results. Recently, federal government agencies have published proposed rules for public comment which would make material modifications to several of these laws, including but not limited to the Anti-Kickback Statute, the Stark Law and HIPAA. It is unknown if or when these proposed rules may be adopted and what final form the proposed rules may take and how they may impact our business operations.

To enforce compliance with the federal laws, the U.S. Department of Justice, or DOJ, in conjunction with other federal agencies, has increased its scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Dealing with investigations can be time- and resource-consuming and can divert management's attention from our core business. Additionally, if a healthcare company settles an investigation with the DOJ or other law enforcement agencies, we may be forced to agree to additional onerous compliance and reporting requirements as part of a consent decree or corporate integrity agreement. Any such investigation or settlement could increase our costs or otherwise have an adverse effect on our business.

The scope and enforcement of these laws is uncertain and subject to rapid change in the current environment of healthcare reform. Federal or state regulatory authorities might challenge our current or future activities under these laws. Any of these challenges could have a material adverse effect on our reputation, business, financial condition and operating results. Any state or federal regulatory review of us, regardless of the outcome, would be costly and time-consuming. Additionally, we cannot predict the impact of any changes in these laws, whether or not retroactive.

We may be liable if we engage in the promotion of the off-label use of our products.

Our promotional materials and training methods must comply with FDA and other applicable laws and regulations, including the prohibition against the promotion of the off-label use of our products or the pre-promotion of unapproved products. Healthcare providers may use our products off-label, as the FDA does not restrict or regulate a physician's choice of treatment within the practice of medicine. However, if the FDA determines that our promotional materials or training constitutes promotion of an off-label use or the pre-promotion of an unapproved product, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties. Although our policy is to refrain from statements that could be considered off-label promotion of our products or pre-promotion of an unapproved product, the FDA or another regulatory agency could disagree and conclude that we have engaged in improper promotional activities. In addition, the off-label use of our products may increase the risk of product liability claims, which are expensive to defend and could result in substantial damage awards against us and harm our reputation.

Legislative or regulatory healthcare reforms may result in downward pressure on the price of and decrease reimbursement for our products, and uncertainty regarding the healthcare regulatory environment could have a material adverse effect on our business.

The sales of our products depend in part on the availability of coverage and reimbursement from third-party payors such as government health administration authorities, private health insurers, health maintenance organizations and other healthcare-related organizations. Both the federal and state governments in the United States continue to propose and pass new legislation and regulations designed to, among other things, expand healthcare coverage to more individuals, contain or reduce the cost of healthcare, and improve the quality of healthcare outcomes. This legislation and regulation may result in decreased reimbursement for medical devices, which may create additional pressure to reduce the prices charged for medical devices. Reduced reimbursement rates could significantly decrease our revenue, which in turn would place significant downward pressure on our gross margins and impede our ability to become profitable.

The Patient Protection and Affordable Care Act, or PPACA, substantially changed the way healthcare is financed by both governmental and private insurers, encourages improvements in the quality of healthcare items and services, and significantly impacts the medical device industry. However, a number of legislative changes have been proposed and adopted since the PPACA was enacted, and legislation has also been proposed that could modify or repeal the PPACA. The uncertainties regarding the future of the PPACA, and other healthcare reform initiatives, may have an adverse effect on our customers' purchasing decisions regarding our products.

In the future, additional changes could be made to governmental healthcare programs that could significantly impact the success of our products. Cost control initiatives could decrease the price that we receive for our products. At this time, we cannot predict which, if any, additional healthcare reform proposals will be adopted, when they may be adopted or what impact they may have on the existing regulatory environment, or our ability to operate our business. Any of these factors could have a material adverse effect on our operating results and financial condition.

Our financial performance may be adversely affected by medical device tax provisions in the healthcare reform laws.

The PPACA imposes, among other things, an excise tax of 2.3% on any entity that manufactures or imports medical devices offered for sale in the United States, although this tax has been suspended for calendar years 2016, 2017, 2018 and 2019. It is unclear at this time if the moratorium will be further extended. We do not believe that our products are subject to this tax based on the retail exemption under applicable Treasury Regulations. However, the availability of this exemption is subject to interpretation by the Internal Revenue Service, or the IRS, and the IRS may disagree with our analysis. Absent further legislative action, the medical device excise tax applies to sales of taxable medical devices beginning on January 1, 2020, and future products that we manufacture, produce or import may be subject to this tax (unless the retail exemption or other applicable exemption applies). The financial impact this tax may have on our business is unclear and there can be no assurance that our business will not be materially adversely affected by it. Additionally, Congress could terminate the moratorium or further change the law related to the medical device tax in a manner that could adversely affect us.

Risks Related to our Common Stock

The price of our common stock may continue to fluctuate significantly.

The trading price of our common stock has been volatile in recent years. We believe our stock price has been, and will continue to be, subject to wide fluctuations in response to a variety of factors, including the following:

- actual or anticipated fluctuations in our financial and operating results from period to period;
- our actual or perceived need for additional capital to fund our operations;
- market acceptance of our current products and products under development, and the recognition of our brand;
- introduction of proposed products, technologies or treatment techniques by us or our competitors;
- announcements of significant contracts, acquisitions or divestitures by us or our competitors;
- regulatory approval of our products or the products of our competitors, or the failure to obtain such approvals on the projected timeline or at all;
- speculative trading practices of market participants;
- issuance of securities analysts' reports or recommendations;
- threatened or actual litigation and government investigations;
- sales of shares of our common stock by our employees, directors or principal stockholders; and
- general political or economic conditions.

These and other factors might cause the market price of our common stock to fluctuate substantially. Fluctuations in our stock price may negatively affect the liquidity of our common stock, which could further impact our stock price.

In recent years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies across many industries. These changes may occur without regard to the financial condition or operating performance of the affected companies. Accordingly, the price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce the market price of our common stock.

Anti-takeover provisions in our organizational documents and Delaware law may discourage or prevent a change of control, even if an acquisition would be beneficial to our stockholders, which could reduce our stock price and prevent our stockholders from replacing or removing our current management.

Our amended and restated certificate of incorporation and bylaws contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. Some of these provisions:

- authorize the issuance of preferred stock with powers, preferences and rights that may be senior to our common stock, which can be created and issued by the board of directors without prior stockholder approval;
- provide for the adoption of a staggered board of directors whereby the board is divided into three classes each of which has a different three-year term;
- provide that the number of directors shall be fixed by the board;
- prohibit our stockholders from filling board vacancies;
- provide for the removal of a director only with cause and then by the affirmative vote of the holders of a majority of the outstanding shares;
- prohibit stockholders from calling special stockholder meetings;
- prohibit stockholders from acting by written consent without holding a meeting of stockholders;
- require the vote of at least two-thirds of the outstanding shares to approve amendments to the certificate of incorporation or bylaws; and
- require advance written notice of stockholder proposals and director nominations.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our amended and restated certificate of incorporation, bylaws and Delaware law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by our then-current board of directors, including a merger, tender offer or proxy contest involving our company. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

Our board of directors is authorized to issue and designate shares of our preferred stock in additional series without stockholder approval.

Our amended and restated certificate of incorporation authorizes our board of directors, without the approval of our stockholders, to issue 5,000,000 shares of our preferred stock, subject to limitations prescribed by applicable law, rules and regulations and the provisions of our amended and restated certificate of incorporation, as shares of preferred stock in series, and to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The powers, preferences and rights of these additional series of preferred stock may be senior to or on parity with our common stock, and the issuance of such shares in the future may reduce the value of our common stock.

U.S. federal income tax reform could adversely affect us and our stockholders.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, or the 2017 Tax Act, which significantly reforms the Internal Revenue Code of 1986, as amended, or the Code. The 2017 Tax Act, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the expensing of capital expenditures, and puts into effect the migration from a “worldwide” system of taxation to a territorial system. We do not expect tax reform to have a material impact on our projection of minimal cash taxes. Our net deferred tax assets and liabilities were revalued at the newly-enacted U.S. corporate rate, and the impact was recognized in our tax expense, offset by a full valuation allowance, in the year of enactment. We continue to examine the impact that this tax reform legislation may have on our business. The impact of this tax reform on holders of our common stock is uncertain and could be adverse.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of December 31, 2019, we had federal net operating loss, or NOL, carryforwards of approximately $248.7 million, which includes the reduction recorded in 2019 discussed below. Of the total federal net operating loss carryforwards, $208.5 million will begin to expire in 2026, unless previously utilized. If there is an "ownership change" with respect to our company, as defined under Section 382 of the Code, the utilization of our NOL and research credit carryforwards may be subject to substantial limitations imposed by the Code, and similar state provisions. Limitations imposed on our ability to utilize NOL carryforwards could cause U.S. federal income taxes to be paid earlier than would be paid if such limitations were not in effect and could cause NOL carryforwards to expire unused, in each case reducing or eliminating the benefit of our NOL carryforwards. In general, an ownership change occurs whenever there is a shift in ownership of our company by more than 50% by one or more 5% stockholders over a specified time period.

We have completed an analysis through December 31, 2018 to determine whether our net operating losses and credits are likely to be limited by Section 382. Based on this study, the Company determined that offerings of our securities caused an ownership change, as defined under Section 382, in 2018 and the resulting limitation significantly reduced the Company's ability to utilize its net operating loss and credit carryovers before they expire. As a result, in 2019 the Company significantly reduced its deferred tax assets for the net operating loss and research credit carryforwards that are projected to expire unused. In addition, future ownership changes under Section 382 may further limit the Company's ability to fully utilize any remaining tax benefits.

With respect to our NOLs generated in 2018 and thereafter, the 2017 Tax Act may reduce the tax benefit of our NOLs. Under the 2017 Tax Act, our ability to carry back NOLs incurred after December 31, 2017 to previous tax years is eliminated. Under prior law, we could carry back NOLs for two years and carry forward NOLs for 20 years. Under the 2017 Tax Act, NOL carryforwards may be carried forward indefinitely. However, for NOLs arising after December 31, 2017, NOL carryforwards will be limited to 80% of our taxable income. Our NOLs generated in 2017 and in prior years will not be subject to the limitations under the 2017 Tax Act.

We do not intend to pay cash dividends.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future. Accordingly, investors may have to sell some or all of their shares of our common stock in order to generate cash flow from their investment.

Regulations related to "conflict minerals" may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

The SEC adopted a rule requiring disclosures by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rule requires companies to perform due diligence, disclose and annually report to the SEC whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, which could increase our expenses. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. For example, Mr. Sheridan, our principal executive officer, and Ms. Vosseller, our principal financial and accounting officer, are involved in a personal relationship and share a primary residence. While our board of directors is informed of the relationship and appropriate actions have been taken to ensure compliance with Company policies and procedures, the existence of this relationship could create additional risk, or the perception of additional risk, that our controls and procedures may not be effective. In addition, any testing by us conducted in connection with Section 404(a) of the Sarbanes-Oxley Act, or any testing conducted by our independent registered public accounting firm in connection with Section 404(b) of the Sarbanes-Oxley Act may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

We are required to disclose changes made to our internal control procedures on a quarterly basis and our management is required to assess the effectiveness of these controls annually. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

We may be at increased risk of securities class action litigation.

In the past, securities class action litigation has been instituted against companies following periods of volatility in the overall market and in the price of a company's securities. We believe this risk may be particularly relevant to us as we have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business, financial condition and results of operations. Our stock price volatility and the increase in our market capitalization during the past year may also result in higher expenses associated with our directors' and officers' liability insurance program.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, our stock price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. In addition, if our operating results fail to meet the forecasts of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our stock price and trading volume to decline.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

Substantially all of our operations are currently conducted at leased facilities, including our manufacturing processes, research and development activities, customer and technical support, and management and administrative functions. As of December 31, 2019, we occupied facilities with an aggregate total of approximately 341,000 square feet, as follows:

- Roselle Street Leases: approximately 88,000 square feet of general office and laboratory space located on Roselle Street in San Diego, California. All of our existing leases for facilities on Roselle Street are scheduled to expire in May 2022. We have a one-time option to terminate our Roselle Street Leases effective as of May 2021 upon delivery of advance notice to the landlord and the payment of an early termination fee.

- Barnes Canyon Lease: approximately 48,880 square feet of general office, manufacturing and warehouse space located on Barnes Canyon Road in San Diego, California, which is scheduled to expire in November 2023. We have a one-time option to extend the term of the Barnes Canyon Lease for a period of not less than three years and not greater than five years, by delivering notice to the landlord at least nine months and not more than 12 months prior to the expiration of the lease.

- Vista Sorrento Parkway Lease: approximately 59,013 square feet of general office space located on Vista Sorrento Parkway in San Diego, California, which is scheduled to expire in January 2023. We have a one-time option to extend the term of the Vista Sorrento Parkway Lease for a period of four years, by delivering written notice to the landlord in accordance with the terms of the lease.

- Marindustry Place Lease: approximately 40,490 square feet of general office and warehouse space located on Marindustry Place, San Diego, California, which is scheduled to expire in April 2026. We have a one-time option to extend the term of the Marindustry Place Lease for a period of no less than three years and no more than five years by delivering written notice to the landlord in accordance with the terms of the lease.

- Shoreline Lease: approximately 94,562 square feet of general office space located on Shoreline Drive, Boise, Idaho. The Shoreline Lease term is scheduled to commence in July 2020, and expire in June 2027. We have a one-time option to extend the term of the Shoreline Lease for a period of three years by delivering written notice to the landlord in accordance with the terms of the lease.

- Boise Short-Term Lease: approximately 9,109 square feet of general office space located on Shoreline Drive, Boise, Idaho. This is a short-term lease that is scheduled to expire in September 2020.

- Markham Lease: approximately 667 square feet of general office space located in Markham, Ontario, Canada. This is a month-to-month lease that can be canceled by delivering written notice to the landlord in accordance with the terms of the lease.

In January of 2020, we entered into a sub-lease agreement for approximately 30,703 square feet of general office space located on High Bluff Drive, in San Diego, California. The High Bluff lease is scheduled to expire in March 2022.

We believe that the facilities that we presently occupy will be sufficient to support our current operations and that suitable additional facilities would be available to us should our operations require it.

Item 3. Legal Proceedings.

From time to time, we are involved in various legal proceedings arising from or related to claims incident to the normal course of our business activities. Although the results of such legal proceedings and claims cannot be predicted with certainty, we believe we are not currently a party to any legal proceeding(s) which, if determined adversely to us, would, individually or taken together, have a material adverse effect on our business, operating results, financial condition or cash flows. However, regardless of the merit of the claims raised or the outcome, legal proceedings may have an adverse impact on us as a result of defense and settlement costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock began trading on the NASDAQ Global Market on November 14, 2013 under the symbol “TNDM.” Prior to such time, there was no public market for our common stock. The following table sets forth intraday the high and low sales prices per share of our common stock as reported on the NASDAQ Global Market for the period indicated.

	Price Range	
	High	Low
Year Ended December 31, 2019:		
First Quarter	$ 74.81	$ 32.00
Second Quarter	$ 72.19	$ 51.37
Third Quarter	$ 74.30	$ 56.69
Fourth Quarter	$ 71.99	$ 52.31
Year Ended December 31, 2018:		
First Quarter	$ 5.23	$ 2.14
Second Quarter	$ 25.50	$ 4.75
Third Quarter	$ 52.55	$ 20.08
Fourth Quarter	$ 44.10	$ 26.40

Holders of Record

As of February 19, 2020, there were approximately 48 holders of record of our common stock. The actual number of common stockholders is greater than the number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Securities Authorized for Issuance under Equity Compensation Plans

Information about our equity compensation plans, as set forth in this Annual Report under the caption “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in Part III, Item 12, is incorporated herein by reference.

Unregistered Sales of Equity Securities

None.

Repurchases of Equity Securities

We did not repurchase any of our equity securities during 2019 or 2018.

PART II

Item 6. Selected Financial Data.

The selected financial data presented below under the heading "Consolidated Statement of Operations Data" for the years ended December 31, 2019, 2018, and 2017 and the selected financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2019 and 2018 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected financial data presented below under the heading "Consolidated Statement of Operations Data" for the years ended December 31, 2016 and 2015 and the selected financial data presented below under the heading "Consolidated Balance Sheet Data" as of December 31, 2017, 2016 and 2015 are derived from our audited consolidated financial statements not included in this Annual Report. The selected financial data presented below should be read in conjunction with the information included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 and the consolidated financial statements and the related notes in Part II, Item 8. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

Consolidated Statement of Operations Data:

	Year Ended December 31,				
(in thousands, except per share data)	**2019**	**2018**	**2017**	**2016**	**2015**
Sales	$ 362,305	$ 183,866	$ 107,601	$ 84,248	$ 72,850
Cost of sales	168,093	94,044	63,507	60,656	46,270
Gross profit	194,212	89,822	44,094	23,592	26,580
Operating expenses:					
Selling, general and administrative	165,735	105,226	86,377	82,834	78,621
Research and development	45,199	29,227	20,661	18,809	16,963
Total operating expenses	210,934	134,453	107,038	101,643	95,584
Operating loss	(16,722)	(44,631)	(62,944)	(78,051)	(69,004)
Total other income (expense), net	(7,882)	(77,929)	(10,081)	(5,411)	(3,404)
Loss before income taxes	$ (24,604)	$ (122,560)	$ (73,025)	$ (83,462)	$ (72,408)
Income tax expense (benefit)	149	51	8	(15)	10
Net loss	$ (24,753)	$ (122,611)	$ (73,033)	$ (83,447)	$ (72,418)
Net loss per share, basic and diluted	$ (0.42)	$ (2.55)	$ (12.87)	$ (27.30)	$ (25.04)
Weighted average shares used to compute basic and diluted net loss per share	58,507	48,129	5,677	3,057	2,892

Consolidated Balance Sheet Data:

	As of December 31,				
(in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**
Cash and cash equivalents	$ 51,175	$ 41,826	$ 13,700	$ 44,678	$ 43,088
Short-term investments	$ 125,283	$ 87,201	$ 479	$ 8,860	$ 28,018
Working capital	$ 176,745	$ 121,597	$ 28,071	$ 60,616	$ 80,464
Property and equipment, net	$ 32,923	$ 17,151	$ 19,631	$ 18,409	$ 15,526
Total assets	$ 326,110	$ 206,294	$ 95,346	$ 112,392	$ 124,725
Notes payable	$ —	$ —	$ 76,541	$ 78,960	$ 29,275
Total stockholders' equity (deficit)	$ 194,979	$ 131,275	$ (29,148)	$ (5,927)	$ 63,468

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis together with "Selected Financial Data" in Part II, Item 6 and our consolidated financial statements and related notes in Part II, Item 8. The following discussion contains forward-looking statements, which statements are subject to considerable risks and uncertainties. Our actual results could differ materially from those expressed or implied in any forward-looking statements as a result of various factors, including those set forth under the caption "Risk Factors" in Part I, Item 1A.

Certain statements contained in this Annual Report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, and are subject to the "safe harbor" created by these sections. Future filings with the SEC, future press releases and future oral or written statements made by us or with our approval, which are not statements of historical fact, may also contain forward-looking statements. Because such statements include risks and uncertainties, many of which are beyond our control, actual results may differ materially from those expressed or implied by such forward-looking statements. Some of the factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements can be found under the caption "Risk Factors" in Part I, Item 1A, and elsewhere in this Annual Report. The forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update such statements to reflect events that occur or circumstances that exist after the date on which they are made.

Overview

We are a medical device company with an innovative approach to the design, development and commercialization of products for people with insulin-dependent diabetes. Our goal is to lead in insulin therapy management by building a robust ecosystem and portfolio of data-driven products and services around our flagship insulin pumps. We believe our competitive advantage is rooted in our consumer-focused approach, and the incorporation of modern and innovative technology into our product offerings. Our manufacturing, sales and support activities principally focus on our flagship pump platform, the t:slim X2 Insulin Delivery System (t:slim X2), and our complementary product offerings. The simple-to-use t:slim X2 is based on our proprietary technology platform and is the smallest durable insulin pump available. It is the only pump currently available in the United States that is capable of remote feature updates, which positions us well to address the evolving needs and preferences of differentiated segments of the insulin-dependent diabetes market. We aim to improve and simplify the lives of people with diabetes and those of their healthcare providers, by delivering innovative hardware and software solutions, as well as best-in-class customer support.

Since our initial commercial launch, we have been able to rapidly innovate and bring more products to market than our competitors. We have commercially launched seven insulin pumps in the United States since 2012 and two pumps outside the United States since 2018. Four of our insulin pumps have featured integration with continuous glucose monitoring (CGM) technology, and two have featured an automated insulin delivery (AID) algorithm. We believe that the three new classifications defined by the United States Food and Drug Administration (FDA) for the interoperability of devices for AID will help support continued rapid innovation by streamlining the regulatory pathway for integrated products. In June 2018, the t:slim X2 was the first insulin pump designated as compatible with integrated continuous glucose monitoring (known as iCGM) devices; in February 2019, the t:slim X2 was the first in a new device category called Alternate Controller Enabled Infusion Pumps (ACE pumps); and in December 2019, Control-IQ technology for the t:slim X2 insulin pump was the first automated insulin dosing software in a new interoperable automated glycemic controller category.

In the four-year period ended December 31, 2019, we shipped approximately 142,000 insulin pumps, which is representative of our estimated global installed customer base on the typical four-year reimbursement cycle. Approximately 118,000 of these pumps were shipped to customers in the United States, and approximately 24,000 were shipped to international markets.

Today, our t:slim X2 hardware platform represents 100% of our new pump shipments. It is the only commercial insulin pump that allows users to update their pumps' software quickly and easily from a personal computer. We have offered in-warranty t:slim customers in the United States four different software updates for no-cost using the Tandem Device Updater, including our two AID algorithms, Basal-IQ technology and Control-IQ technology. Basal-IQ technology launched in August 2018 and is a predictive low glucose suspend feature that is designed to temporarily suspend insulin delivery to help reduce the frequency and duration of hypoglycemic events. Control-IQ technology launched in January 2020 and is an advanced hybrid-closed loop feature, designed to help increase a user's time in targeted glycemic range. It is the first and only system cleared to deliver automatic correction boluses in addition to adjusting insulin to help prevent high and low blood sugar. Outside the United States we began selling efforts with t:slim X2 with Dexcom G5 integration in the third quarter of 2018, offering no-cost software updates for Basal-IQ technology in the third quarter of 2019, and intend to begin offering Control-IQ technology updates in select geographies in the second half of 2020.

Our insulin pump products are generally considered durable medical equipment and have an expected lifespan of at least four years. In addition to insulin pumps, we sell disposable products that are used together with our pumps and are replaced every few days, including cartridges for storing and delivering insulin, and infusion sets that connect the insulin pump to a user's body.

Our insulin pumps are compatible with the Tandem Device Updater, a revolutionary tool that allows pump users to update their pumps' software quickly and easily from a personal computer. This unique offering positions us to bring future innovations, including our next generation AID algorithms, to our in-warranty t:slim X2 customers independent of the typical four-year insurance pump reimbursement cycle, faster than the industry has been able to in the past. The Tandem Device Updater launched in the United States in the first quarter of 2017 and outside of the United States in the third quarter of 2019. Since its launch, we have offered in-warranty t:slim customers in the United States four different software updates for no-cost using the Tandem Device Updater, including Basal-IQ technology and, most recently, Control-IQ technology. Outside the United States we began offering no-cost software updates for Basal-IQ technology in the third quarter of 2019 and intend to begin offering Control-IQ technology updates in the second half of 2020, subject to required regulatory and reimbursement approvals.

For the years ended December 31, 2019, 2018 and 2017, our consolidated sales were $362.3 million, $183.9 million, and $107.6 million, respectively. For the years ended December 31, 2019, 2018 and 2017, our net loss was $24.8 million, $122.6 million, and $73.0 million, respectively. Worldwide pump sales accounted for 68%, 67%, and 66% of our total sales, respectively, for the years ended December 31, 2019, 2018 and 2017, while pump-related supplies and accessories accounted for the remainder in each year. Our accumulated deficit as of December 31, 2019 and 2018 was $624.8 million and $600.1 million, respectively. These amounts included $216.6 million and $147.4 million of non-cash stock-based compensation charges and non-cash changes in the fair value of common stock warrants as of December 31, 2019 and 2018, respectively.

In the United States, we have rapidly increased sales since the commercial launch of our first product by expanding our sales, clinical and marketing organization, by developing, commercializing and marketing multiple differentiated products that utilize our proprietary technology platform and consumer-focused approach, and by providing strong customer support. Our sales have further increased following our scaled product launches in geographies outside of the United States. We believe that by demonstrating our product benefits and the shortcomings of existing insulin therapies, more people will choose our insulin pumps for their therapy needs, allowing us to further penetrate and expand the market worldwide. In addition, we believe publications, such as the results from the study using Control-IQ technology that was published in the *New England Journal of Medicine* in October 2019, will be valuable in demonstrating the clinical outcome benefits derived from our system to healthcare providers and payors. We also believe we are positioned well to address consumers' needs and preferences with our current products and products under development and by offering customers access to our future innovations through the Tandem Device Updater, as they are approved by the local regulating bodies. At the same time, by innovating and offering new product features and benefits using our t:slim X2 platform, we are able to leverage a shared global manufacturing and supply chain infrastructure. In the United States, we are able to leverage a single sales, marketing, and clinical organization, as well as our domestic customer support services. In Canada, we have a separate sales organization and our customer support infrastructure benefits from close collaboration with our United States organization. In other international geographies, we have contracted with experienced distribution partners to commercialize and support our t:slim X2 platform.

Products Under Development

Our products under development support our strategy of focusing on both consumer and clinical needs, and include AID system enhancements, a connected (mobile) health offerings and a next-generation hardware platform which we call the t:sport Insulin Delivery System (t:sport). We intend to leverage our consumer-focused approach and proprietary technology platform to continue to develop products that have the features and functionality that will allow us to meet the needs of people in differentiated segments of the insulin-dependent diabetes market, including the following:

- *t:sport Insulin Delivery System* – Approximately half the size of our t:slim X2 pump, the t:sport pump is being designed for people who seek even greater discretion and flexibility with the use of their insulin pump. We anticipate that t:sport will feature a 200-unit cartridge, an on-pump bolus button, a rechargeable battery, an AID algorithm, and a Bluetooth radio. t:sport is being designed for use with leading U-100 insulins, and we are evaluating the use of insulin concentrates to provide to people with greater insulin needs. We anticipate that t:sport will be our first insulin pump to support full pump-control from our mobile application, subject to FDA review and approval. A separate controller may be offered in addition to or in advance of full mobile control availability.

- *Connected (Mobile) Health Offerings* – We are currently preparing for the launch of a mobile application that has been designed to utilize the capability of the Bluetooth radio integrated with the t:slim X2 to wirelessly upload pump data to t:connect, receive notification of pump alerts and alarms, and provide a discrete, secondary display of glucose and insulin data. Future updates of this app will integrate other health-related information from third party sources, and support future pump-control capabilities for our products under development.
    - The launch of the first generation of this mobile application in the United States follows the roll-out of our Control-IQ technology and, by allowing for the wireless upload of data to t:connect, is intended to reduce patient burden and increase healthcare provider office efficiency by reducing the manual steps historically required for data extraction.
    - Over time, we also intend to offer additional features and enhancements to the mobile application, including partial or full control of pump features.

For additional information, see the section of this Annual Report under the caption “Business” in Part I, Item 1.

Pump Shipments

From inception through June 2018, we derived nearly all of our sales from the shipment of insulin pumps and associated supplies to customers in the United States. Starting in the third quarter of 2018, we commenced sales of our t:slim X2 insulin pump in select international geographies. We consider the number of insulin pump units shipped per quarter to be an important metric for managing our business.

In the four-year period ended December 31, 2019, we shipped approximately 142,000 insulin pumps, of which approximately 118,000 were shipped to customers in the United States, and approximately 24,000 were shipped to international markets. In the year ended December 31, 2019, we shipped 73,431 insulin pumps worldwide, compared to 34,493 insulin pumps shipped in 2018.

Pump shipments to customers in the United States by fiscal quarter were as follows:

	Pump Units Shipped for Each of the Three Months Ended in Respective Years - U.S.				
	March 31	June 30	September 30	December 31	Total
2012	—	9	204	844	1,057
2013	852	1,363	1,851	2,406	6,472
2014	1,723	2,235	2,935	3,929	10,822
2015	2,487	3,331	3,431	6,234	15,483
2016	4,042	4,582	3,896	4,418	16,938
2017	2,816	3,427	3,868	6,950	17,061
2018	4,444	5,447	7,379	12,935	30,205
2019	9,669	12,799	13,814	17,453	53,735

Pump shipments to international customers by fiscal quarter were as follows:

	Pump Units Shipped for Each of the Three Months Ended in Respective Years - International				
	March 31	June 30	September 30	December 31	Total
2018	N/A	N/A	1,055	3,233	4,288
2019	5,063	8,459	4,025	2,149	19,696

Technology Upgrade Program

Beginning in the third quarter of 2016 through the third quarter of 2017, we offered a Technology Upgrade Program under a variable pricing structure, as a pathway for certain existing customers to obtain the t:slim X2. The accounting treatment for the program required us to defer up to 100% of sales at the time of pump shipment and recognize them in a subsequent period, either when the upgrade was fulfilled or at the expiration of the program. We recognized the deferred amount of sales and cost of sales at the earlier of when the obligations under the program were satisfied or upon the expiration of the program. If a customer elected to participate in the program, we recognized any upgrade fees that we received and the associated costs at the time of fulfilling the given obligation. For the year ended December 31, 2017, we recorded incremental net sales of $5.0 million with a corresponding increase of $3.1 million in gross profit as a result of the Technology Upgrade Program. The program expired on September 30, 2017 and, therefore, had no impact on our 2018 and 2019 financial results.

Trends Impacting Financial Results

Overall, we have experienced considerable sales growth since the commercial launch of our first product in the third quarter of 2012, while incurring operating losses since our inception. Our operating results have historically fluctuated on a quarterly or annual basis, particularly in periods surrounding anticipated regulatory approvals, the commercial launch of new products by us and our competitors, and the commercial launch of our products in geographies outside of the United States. We expect these periodic fluctuations in our operating results to continue.

We believe that our financial condition and operating results, as well as the decision-making process of our current and potential customers, has been and will continue to be impacted by a number of general trends, including the following:

- market acceptance of our products and competitive products by people with insulin-dependent diabetes, their caregivers and healthcare providers;
- the introduction of new products, treatment techniques or technologies for the treatment of diabetes, including the timing of the commercialization of new products by us and our competitors;
- seasonality in the United States associated with annual insurance deductibles and coinsurance requirements associated with the medical insurance plans utilized by our customers and the customers of our distributors;
- timing of holidays and summer vacations, which may vary by geography;
- the buying patterns of our distributors and other customers, both domestically and internationally;
- changes in the competitive landscape, including as a result of companies entering or exiting the diabetes therapy market;
- access to adequate coverage and reimbursement for our current and future products by third-party payors, and reimbursement decisions by third-party payors;
- the magnitude and timing of any changes to our facilities, manufacturing operations and other infrastructure;
- anticipated and actual regulatory approvals of our products and competitive products; and
- product recalls impacting, or the suspension or withdrawal of regulatory clearance or approval relating to, our products or the products of our competitors.

In addition to these general trends, we believe the following specific factors have materially impacted, and could continue to materially impact our business going forward:

- continued increase in demand following the commercial launch of t:slim X2 and the demonstrated success of our Tandem Device Updater;
- anticipated new product launches;
- increased opportunity to achieve customer renewals as customers become eligible for insurance reimbursement to purchase a new insulin pump at the end of the typical four-year reimbursement cycle;
- benefit in 2018 and 2019 following the announcement by Johnson & Johnson that it discontinued the operations of Animas Corporation (Animas) and discontinued availability of Animas pump supplies in September 2019;

- designation by UnitedHealthcare of one of our competitors as its preferred, in-network durable medical equipment provider of insulin pumps for most customers age seven and above;
- ability to enter into and maintain agreements with CGM partners for CGM integration;
- expansion and new product launches in select international geographies;
- accounting variability and complexity associated with certain commercial programs, such as the Technology Upgrade Program offered in 2016 and 2017 that provided a pathway for in-warranty customers to our next-generation hardware platform; and
- ability to effectively scale our operations to support rapid growth, including expanding our facilities, advancing our research and development efforts, increasing manufacturing capacity through third-party manufacturers, and hiring and retaining employees in customer service and support functions.

In addition to working to achieve our sales growth expectations, we intend to continue to leverage our infrastructure investments to realize additional manufacturing, sales, marketing and administration cost efficiencies with the goal of improving our operating margins and ultimately achieving sustained profitability. We achieved profitability for the first time in the fourth quarter of 2018, and again in the fourth quarter of 2019, though we may be unable to achieve profitability consistently from period to period. We believe we can ultimately achieve sustained profitability by driving incremental sales growth in U.S. and international markets, meeting our pump renewal sales objectives, maximizing manufacturing efficiencies on increased production volumes, and leveraging the investments made in our sales, clinical, marketing and customer support organizations.

Recent Developments

In December 2019, the FDA cleared our t:slim X2 insulin pump with Control-IQ technology, an advanced hybrid-closed-loop feature designed to help increase time in range, and the first and only system cleared to deliver automatic correction boluses in addition to adjusting insulin delivery to help prevent high and low blood sugar. The system integrates with Dexcom G6 continuous glucose monitoring (CGM), which requires no fingersticks for calibration or diabetes treatment decisions.

Components of Results of Operations

Sales

We offer products for people with insulin-dependent diabetes. We commenced commercial sales of our original t:slim insulin pump platform in the United States in the third quarter of 2012 and continued to launch various iterations of that platform during the following years. In October 2016, we began shipping our flagship pump platform, the t:slim X2 insulin pump. The t:slim X2 hardware platform, which includes remote software update capabilities, now represents 100% of our new pump shipments. Accordingly, in the third quarter of 2018 we discontinued new sales of all prior platform versions. Our products also include disposable cartridges and infusion sets. In addition, we offer accessories including protective cases, belt clips, and power adapters, although sales of these products are not significant.

We primarily sell our products through national and regional distributors in the United States on a non-exclusive basis. These distributors are generally providers of medical equipment and supplies to individuals with diabetes. Our primary end customers are people with insulin-dependent diabetes. Similar to other durable medical equipment, the primary payor is generally a third-party insurance carrier and the customer is usually responsible for any medical insurance plan copay or coinsurance requirements. We believe our existing sales, clinical, and marketing infrastructure will allow us to continue to increase sales by allowing us to promote our products to a greater number of potential customers, caregivers and healthcare providers.

In the third quarter of 2018, we began the launch of our t:slim X2 with G5 through distribution partners outside the United States, including in select European countries, Australia, New Zealand, and South Africa. During the second quarter of 2019, we began selling our t:slim X2 with Basal-IQ technology in certain of these geographies. Our independent distributor partners perform all sales, customer support and training in their respective markets. In Canada, we market with a direct sales force and, similar to the United States, use a distributor partner for certain billing and fulfillment activities. Historically, we have experienced consistent levels of reimbursement for our products in the United States, but we expect the average sales price will vary in international markets based on a number of factors, such as the geographical mix, nature of the reimbursement environment, government regulations and the extent to which we rely on distributor relationships to provide sales, clinical and marketing support.

In general, in the United States we have experienced, and expect to continue to experience, pump shipments being weighted heavily towards the second half of the year, with the highest percentage of pump shipments expected in the fourth quarter due to the nature of the reimbursement environment. Consistent with our historical seasonality, we also expect domestic pump shipments from the fourth quarter to the following first quarter to decrease significantly. Internationally, we do not expect this same impact from seasonality associated with reimbursement, although the quarterly sales trends may be impacted by summer vacations and launches into new geographies. While the opportunity to transition former Animas customers during 2019 positively impacted our quarterly sales trends worldwide, we do not anticipate future significant benefit.

In addition, our quarterly sales have fluctuated, and may continue to fluctuate, substantially in the periods surrounding anticipated and actual regulatory approvals and commercial launches of new products by us or our competitors. We believe customers may defer purchasing decisions if they believe a new product may be launched in the future. Additionally, upon the announcement of FDA approval or commercial launch of a new product, either by us or one of our competitors, potential new customers may reconsider their purchasing decisions or take additional time to consider the anticipated or new approval or product launch in making their purchasing decisions. For instance, we believe certain customers paused in their decision-making during the second half of 2019 in anticipation of the commercial availability of the t:slim X2 with Control-IQ technology. However, it is difficult to quantify the extent of the impact of these or similar events on future purchasing decisions.

Cost of Sales

Historically, we have manufactured our pumps and disposable cartridges at our manufacturing facility in San Diego, California. In 2020, we anticipate outsourcing a portion of our cartridge manufacturing to an experienced third-party contract manufacturer. Infusion sets and pump accessories are manufactured by third-party suppliers. Cost of sales includes raw materials, labor costs, manufacturing overhead expenses, product training costs, freight, reserves for expected warranty costs, scrap and excess and obsolete inventories. Manufacturing overhead expenses include expenses relating to quality assurance, manufacturing engineering, material procurement, inventory control, facilities, equipment, information technology and operations supervision and management. We anticipate that our cost of sales will continue to increase as our product sales increase.

Over the long term, we expect our overall gross margin percentage, which for any given period is calculated as sales less cost of sales divided by sales, to improve, as our sales increase and our overhead costs are spread over larger production volumes. We expect we will be able to leverage our manufacturing cost structure across our products that utilize the same technology platform and manufacturing infrastructure and will be able to further reduce per unit costs with increased automation, process improvements and raw materials cost reductions. Pumps have, and are expected to continue to have, a higher gross margin than our pump-related supplies. Therefore, the percentage of pump sales relative to total sales will have a significant impact on gross margin. We also expect our warranty cost per unit to decrease as we release additional product features and functionality utilizing the Tandem Device Updater. However, our overall gross margin may fluctuate in future quarterly periods as a result of numerous factors aside from those associated with production volumes and product mix. In addition, as demand for our products increases, we have begun, and may continue, to make additional investments in manufacturing capacity or increase our reliance on third parties for manufacturing-related services, either of which could have a negative impact on gross margin in the near-term. Specifically, in 2020, we plan to invest in additional manufacturing equipment to meet anticipated long-term demand for our cartridges, which may initially place downward pressure on the gross margin on our supplies.

Other factors impacting our overall gross margin may include the changing percentage of products sold to distributors versus directly to individual customers, varying levels of reimbursement among third-party payors in domestic and international markets, the timing and success of new regulatory approvals and product launches, the impact of the valuation and amortization of employee stock option grants on non-cash stock-based compensation expense allocated to cost of sales, changes in warranty estimates, training costs, licensing and royalty costs, cost associated with excess and obsolete inventories, and changes in our manufacturing processes, capacity, costs or output.

Selling, General and Administrative

Our selling, general and administrative (SG&A) expenses primarily consist of salary, cash-based incentive compensation, fringe benefits and non-cash stock-based compensation for our executive, financial, legal, marketing, sales, clinical, customer support, technical services, insurance verification, regulatory affairs and other administrative functions. We began expanding our U.S. field sales and clinical organization during the third quarter of 2019 to support an expected increase in demand. We expect to have approximately 90 territories by early 2020. Our existing territories are maintained by sales representatives and field clinical specialists, and supported by managed care liaisons, additional sales management and other customer support personnel. Our operations in Canada are supported by a direct sales force of approximately 17 field representatives. Other significant SG&A expenses include those incurred for product demonstration samples, commercialization activities associated with new product launches, travel, trade shows, outside legal fees, independent auditor fees, outside consultant fees, insurance premiums, facilities costs and information technology costs. Overall, we expect our SG&A expenses, including the cost of our customer support infrastructure, to increase as our customer base grows in the United States and international markets. We will continue to evaluate, and may further increase, the number of our field sales and clinical personnel in order to optimize the coverage of our existing territories. Additionally, we realized a notable increase in non-cash stock-based compensation expense allocated to SG&A beginning in the third quarter of 2018, and again in the second quarter of 2019, due to the valuation of certain employee stock option grants and the impact on the valuation of the significant increase in our stock price over the previous year. We expect higher non-cash stock-based compensation expense will be sustained through the first half of 2020 and will begin to decline in future quarters. Our SG&A expenses may also increase due to anticipated costs associated with additional compliance and regulatory reporting requirements.

Research and Development

Our research and development (R&D), activities primarily consist of engineering and research programs associated with our products under development, as well as activities associated with our core technologies and processes. R&D expenses are primarily related to employee compensation, including salary, fringe benefits, non-cash stock-based compensation and temporary employee expenses. We also incur R&D expenses for supplies, development prototypes, outside design and testing services, depreciation, allocated facilities and information services, clinical trial costs, payments under our licensing, development and commercialization agreements and other indirect costs. We expect our R&D expenses to increase as we advance our products under development and develop new products and technologies, partially offset by future expected declines in non-cash stock-based compensation.

Other Income and Expense

Other income and expense primarily consists of changes in the fair value of certain warrants issued in our public offering of common stock in October 2017, and interest earned on our cash equivalents and short-term investments. In 2018 and 2017, it also included interest expense and amortization of debt discount and debt issuance costs associated with our Amended and Restated Term Loan Agreement (Term Loan Agreement) with Capital Royalty Partners II, L.P. and its affiliated funds (CRG), and a $5.3 million loss on extinguishment of debt associated with the full repayment of amounts due under the Term Loan Agreement in August 2018. Prior to the repayment, there was $82.7 million of outstanding principal under the Term Loan Agreement, which accrued interest at a rate of 11.5% per annum. As a result of the full repayment, we did not incur any interest expense or costs associated with the Term Loan Agreement subsequent to the third quarter of 2018. Other income also includes interest earned on our cash equivalents and short-term investments. We expect other income and expense to fluctuate from period to period primarily due to the revaluation of certain outstanding common stock warrants, which expire in the fourth quarter of 2022.

Results of Operations

(in thousands, except percentages)	Year Ended December 31, 2019	2018	2017
Sales:			
Domestic	$ 302,084	$ 174,188	$ 107,601
International	60,221	9,678	—
Total sales	362,305	183,866	107,601
Cost of sales	168,093	94,044	63,507
Gross profit	194,212	89,822	44,094
Gross margin	54%	49%	41%
Operating expenses:			
Selling, general and administrative	165,735	105,226	86,377
Research and development	45,199	29,227	20,661
Total operating expenses	210,934	134,453	107,038
Operating loss	(16,722)	(44,631)	(62,944)
Other income (expense), net:			
Interest and other income	3,271	1,462	239
Interest and other expense	(78)	(7,584)	(11,341)
Loss on extinguishment of debt	—	(5,313)	—
Change in fair value of stock warrants	(11,075)	(66,494)	1,021
Total other expense, net	(7,882)	(77,929)	(10,081)
Loss before income taxes	$ (24,604)	$ (122,560)	$ (73,025)
Income tax expense	149	51	8
Net loss	$ (24,753)	$ (122,611)	$ (73,033)

Comparison of Years Ended December 31, 2019 and 2018

Sales. For the year ended December 31, 2019, sales were $362.3 million, which included $60.2 million of international sales. For the year ended December 31, 2018, sales were $183.9 million, which included $9.7 million of international sales which commenced in the third quarter of 2018.

The increase in total sales of $178.4 million in 2019, as compared to 2018, was primarily driven by a 113% increase in worldwide pump shipments to 73,431 in 2019, compared to 34,493 in 2018. Worldwide pump shipments were positively impacted by strong demand for our products following the August 2018 domestic launch of t:slim X2 with Basal-IQ technology and the commencement of commercial sales of t:slim X2 with G5 integration in select international geographies beginning in the third quarter of 2018, as well as the fulfillment of international pump demand from backlog that existed at the end of 2018 due to supply constraints. In addition, worldwide sales in 2019 and 2018 were positively impacted by the transition of former Animas customers to our products. However, we do not anticipate significant benefit from conversion of Animas customers beyond 2019. Sales from pump-related supplies increased 91% primarily due to an overall increase in our installed base of customers reordering supplies. The ratio of the number of infusion sets shipped to the number of cartridges shipped was over 100% in both of the years ended December 31, 2019 and 2018.

Domestic sales by product were as follows (in thousands):

	Year Ended December 31, 2019	2018
Pump	$ 205,492	$ 115,719
Infusion sets	66,034	40,260
Cartridges	30,022	17,796
Other	536	413
Total Domestic Sales	$ 302,084	$ 174,188

International sales by product were as follows (in thousands):

	Year Ended December 31,	
	2019	2018
Pump	$ 42,094	$ 8,205
Infusion sets	11,221	629
Cartridges	6,656	781
Other	250	63
Total International Sales	$ 60,221	$ 9,678

Sales to distributors accounted for 73% and 78% of our total domestic sales for the years ended December 31, 2019 and 2018, respectively. Our percentage of sales to distributors versus individual customers is principally determined by the mix of customers ordering our products within the period and whether or not we have a contractual arrangement with their underlying third-party insurance payor. Sales to distributors accounted for 92% and 100% of our total international sales for the years ended December 31, 2019 and 2018, respectively.

Cost of Sales and Gross Profit. Our cost of sales in 2019 was $168.1 million, resulting in gross profit of $194.2 million, compared to $94.0 million of cost of sales in 2018 resulting in gross profit of $89.8 million. The gross margin for 2019 was 54%, compared to 49% in 2018.

The improvement in both gross profit and gross margin was primarily the result of the increase in insulin pump sales which have a higher gross margin than pump-related supplies. Gross margin and gross profit also increased as a result of per-unit manufacturing cost improvements from higher production volumes and continued overall manufacturing efficiencies gained from our new manufacturing facility which became fully operational at the beginning of 2018. On an aggregate basis, other non-manufacturing costs, which primarily consist of warranty, freight and training costs, also reflected improvement on a per unit basis. Non-cash stock-based compensation expense allocated to cost of sales increased to $6.4 million in 2019 compared to $2.6 million in 2018, due primarily to the valuation of certain 2018 and 2019 employee stock option grants and the impact on the valuation of the significant increase in our stock price.

Selling, General and Administrative Expenses. SG&A expenses increased 58% to $165.7 million in 2019 from $105.2 million in 2018. Employee-related expenses for our SG&A functions comprise the majority of the SG&A expenses. These expenses increased $49.6 million during 2019 compared to 2018, which included an increase of $23.6 million in salaries, incentive compensation and other employee benefits due to an increase in personnel to support our growing installed customer base, and a $26.0 million increase in non-cash stock-based compensation expense. Non-cash stock-based compensation expense allocated to SG&A increased to $42.9 million in 2019, compared to $16.8 million in 2018, due primarily to the valuation of certain 2018 and 2019 employee stock options grants and the impact on the valuation of the significant increase in our stock price. We also experienced increased costs for equipment and supplies, outside consulting and services, and travel of $10.9 million.

Research and Development Expenses. R&D expenses increased 55% to $45.2 million in 2019 from $29.2 million in 2018. The increase in R&D expenses was primarily the result of an increase of $4.8 million in salaries, incentive compensation and other employee benefits due to an increase in personnel to support our product development efforts, and a $4.5 million increase in non-cash stock-based compensation expense. Non-cash stock-based compensation expense allocated to R&D increased to $8.8 million in 2019, compared to $4.3 million in 2018, due primarily to the valuation of certain 2018 and 2019 employee stock option grants and the impact on the valuation of the significant increase in our stock price. We also experienced increased costs for outside consulting and services, clinical trials, and supplies of $5.8 million.

Other Income (Expense). Total other expense in 2019 was $7.9 million, compared to $77.9 million in 2018. Other expense in 2019 primarily consisted of a $11.1 million revaluation loss from the change in fair value of certain warrants due to the significant appreciation in our stock price during 2019, offset by interest and other income of $3.3 million. Other expense in 2018 consisted primarily of a $66.5 million revaluation loss from the change in fair value of certain warrants due to the significant appreciation in our stock price during 2018, $7.6 million of interest expense associated with the Term Loan Agreement, as well as a $5.3 million loss on extinguishment of debt associated with the full repayment of our Term Loan Agreement in August 2018. Interest and other income primarily consisted of interest earned on our cash equivalents and short-term investments, for which our average invested balances were significantly higher in 2019 as compared to 2018.

Comparison of Years Ended December 31, 2018 and 2017

Sales. For the year ended December 31, 2018, sales were $183.9 million, which included $9.7 million of international sales which commenced in the third quarter of 2018. For the year ended December 31, 2017, sales were $107.6 million, which included incremental net pump sales of $5.0 million as a result of the Technology Upgrade Program in place at that time.

The increase in total sales of $76.3 million in 2018, as compared to 2017, was primarily driven by a 102% increase in worldwide pump shipments to 34,493 in 2018, compared to 17,061 in 2017. Worldwide pump shipments were positively impacted by strong demand for our products following the August 2018 domestic launch of t:slim X2 with Basal-IQ technology, the August 2017 launch of t:slim X2 with G5 integration, and the commencement of commercial sales in select international geographies beginning in the third quarter of 2018. Additionally, sales from pump-related supplies increased 66% primarily due to the September 2017 launch of infusion set products using the t:lock connector, as well as an overall increase in our installed customer base of customers reordering supplies. The ratio of the number of infusion sets shipped to the number of cartridges shipped increased to over 100% in 2018 from 69% in the year ended 2017.

Domestic sales by product were as follows (in thousands):

	Year Ended December 31,	
	2018	**2017**
Pump	$ 115,719	$ 71,518
Infusion sets	40,260	21,444
Cartridges	17,796	14,173
Other	413	466
Total Domestic Sales	$ 174,188	$ 107,601

International sales by product were as follows (in thousands):

	Year Ended December 31,	
	2018	**2017[(1)]**
Pump	$ 8,205	$ —
Infusion sets	629	—
Cartridges	781	—
Other	63	—
Total International Sales	$ 9,678	$ —

(1) International sales commenced in the third quarter of 2018. We did not have any international sales during the year ended December 31, 2017.

Sales to distributors accounted for 78% and 75% of our total domestic sales for the years ended December 31, 2018 and 2017, respectively. Our percentage of sales to distributors versus individual customers is principally determined by the mix of customers ordering our products within the period and whether or not we have a contractual arrangement with their underlying third-party insurance payor. The percentage was particularly impacted in 2018 by the mid-2017 launch of the t:lock connector, which resulted in greater purchases of infusion sets by our independent distributors during the period as compared to the same period during the prior year. Sales to distributors accounted for 100% of our total international sales for the year ended December 31, 2018.

Cost of Sales and Gross Profit. Our cost of sales in 2018 was $94.0 million, resulting in gross profit of $89.8 million, compared to $63.5 million of cost of sales and gross profit of $44.1 million in 2017, which included incremental gross profit of $3.1 million associated with the Technology Upgrade Program.

The gross margin for 2018 was 49%, compared to 41% in 2017. The incremental gross profit associated with the Technology Upgrade Program benefited our 2017 gross margin by one percentage point.

The improvement in both gross profit and gross margin was primarily the result of the increase in insulin pump sales which have a higher gross margin than pump-related supplies, as well as per-unit cost improvements on all products from increased production volumes and manufacturing efficiencies. On an aggregate basis, other non-manufacturing costs, which primarily consist of warranty, freight and training costs, also reflected improvement on a per unit basis. Non-cash stock-based compensation expense allocated to cost of sales increased to $2.6 million in 2018, compared to $1.4 million in 2017, due primarily to the valuation of certain 2018 employee stock option grants and the impact on the valuation of the significant increase in our stock price during 2018.

Selling, General and Administrative Expenses. SG&A expenses increased 22% to $105.2 million in 2018 from $86.4 million in 2017. Employee-related expenses for our SG&A functions comprise the majority of the SG&A expenses. These expenses increased $18.4 million during 2018 compared to 2017, which included an increase of $11.6 million in salaries, incentive compensation and other employee benefits due in part to an increase in personnel to support our growing installed customer base, as well as the impact of our strong year-over-year sales growth on incentive-based compensation. Additionally, there was a $6.8 million increase in non-cash stock-based compensation expense. Non-cash stock-based compensation expense allocated to SG&A increased to $16.8 million in 2018, compared to $10.0 million in 2017, due primarily to the valuation of certain 2018 employee stock option grants and the impact on the valuation of the significant increase in our stock price during 2018.

Research and Development Expenses. R&D expenses increased 41% to $29.2 million in 2018 from $20.7 million in 2017. The increase in R&D expenses was primarily the result of an increase of $4.1 million in salaries, incentive compensation and other employee benefits due to an increase in personnel to support our product development efforts, and a $3.1 million increase in non-cash stock-based compensation expense due to the significant increase in our stock price in 2018. In addition, our strong year-over-year sales growth drove a substantial year-over-year increase in incentive-based compensation. Non-cash stock-based compensation expense allocated to R&D increased to $4.3 million in 2018, compared to $1.2 million in 2017, due primarily to the valuation of certain 2018 employee stock option grants and the impact on the valuation of the significant increase in our stock price during 2018.

Other Income (Expense). Total other expense in 2018 was $77.9 million, compared to $10.1 million in 2017. Other expense in 2018 primarily consisted of a $66.5 million revaluation loss from the change in fair value of certain warrants due to the significant appreciation in our stock price during 2018, $7.6 million of interest expense associated with the Term Loan Agreement, as well as a $5.3 million loss on extinguishment of debt associated with the full repayment of our Term Loan Agreement in August 2018. Other expense in 2017 consisted primarily of interest expense associated with the Term Loan Agreement. The outstanding principal balance under the Term Loan Agreement was $82.7 million prior to the repayment and as of December 31, 2017. Interest and other income primarily consisted of interest earned on our cash equivalents and short-term investments, for which our average invested balances were significantly higher in 2018 as compared to 2017.

Liquidity and Capital Resources

At December 31, 2019, we had $176.5 million in cash and cash equivalents and short-term investments. We believe that our cash and cash equivalents and short-term investments balance will be sufficient to satisfy our liquidity requirements for at least the next 12 months from the date of this filing.

Historically, our principal sources of cash have included private placements and public offerings of equity securities, debt financing, and cash collected from product sales. Since the beginning of 2018, we completed the following financings:

- In February 2018, we completed a registered public offering of 34,500,000 shares of common stock at a public offering price of $2.00 per share. The gross proceeds from the offering were approximately $69.0 million, before deducting underwriting discounts and commissions and other offering expenses.

- In August 2018, we completed a registered public offering of 4,035,085 shares of common stock at a public offering price of $28.50 per share. The gross proceeds from the offering were $115.0 million, before deducting underwriting discounts and commissions and other offering expenses.

- From January 2018 through December 2019, we received proceeds of $29.9 million from the exercise of 8,829,235 outstanding warrants which were originally issued in a registered public offering of common stock in October 2017. As of December 31, 2019, there were warrants to purchase 417,315 shares outstanding relating to the October 2017 offering.

- From January 2018 through December 2019, we issued 1,554,995 shares of common stock upon the exercise of stock options, and 409,653 shares of common stock were purchased under our 2013 Employee Stock Purchase Plan, which generated aggregate proceeds of $26.3 million.

Our historical cash outflows have primarily been associated with cash used for operating activities such as the development and commercialization of our products, the expansion and support of our sales, marketing, clinical and customer support organizations, the expansion of our R&D activities, the expansion of our commercial activities to select international geographies, the acquisition of intellectual property, expenditures related to increases in our manufacturing capacity and improvements to our manufacturing efficiency, overall expansion of our facilities and operations, and other working capital needs. Additionally, we have used cash to pay the interest expense associated with our Term Loan Agreement. The outstanding balance associated with the Term Loan Agreement was fully repaid in August 2018, and we have ceased incurring interest expense and other costs associated with the Term Loan Agreement subsequent to the third quarter of 2018.

We expect our sales performance and the resulting operating income or loss, as well as the status of each of our new product development programs, will significantly impact our cash flow from operations, liquidity position and cash management decisions.

The following table shows a summary of our cash flows for the years ended December 31, 2019, 2018 and 2017:

	Year Ended December 31,		
(in thousands)	**2019**	**2018**	**2017**
Net cash provided by (used in):			
Operating activities	$ 41,906	$ (8,319)	$ (66,136)
Investing activities	(56,955)	(90,739)	2,782
Financing activities	24,207	117,184	40,376
Effect of foreign exchange rate changes on cash	191	—	—
Total	$ 9,349	$ 18,126	$ (22,978)

Operating activities. Net cash provided by operating activities was $41.9 million for the year ended December 31, 2019, compared to net cash used of $8.3 million and $66.1 million for the same periods in 2018 and 2017, respectively.

The improvement to net cash provided by operating activities for 2019 compared to 2018 was primarily driven by higher sales and gross margins in 2019, which resulted in a significant reduction in net loss when adjusted for non-cash expenses, particularly stock-based compensation expense and the change in the fair value of common stock warrants, offset by net changes in working capital. Our operating loss for the year ended December 31, 2018 also included $7.6 million in interest expense, and a $5.3 million loss on extinguishment of debt. Working capital changes in 2019 primarily consisted of increases in accounts receivable and inventories, offset by increases in accounts payable, accrued expenses, employee-related liabilities, deferred revenue, and other long-term liabilities related to warranty reserves for 2019 pump sales. Accounts receivable increased to $46.6 million at December 31, 2019 from $35.2 million at December 31, 2018, as a result of higher sales in the fourth quarter of 2019 as compared to the fourth quarter of 2018. Inventories increased to $49.1 million at December 31, 2019 from $19.9 million at December 31, 2018, primarily to support the growth in our business.

The decrease in net cash used in operating activities for 2018 compared to 2017 was primarily associated with a reduction in the net loss when adjusted for non-cash expenses, particularly the change in the fair value of certain common stock warrants, increased stock-based compensation expense, and a $5.3 million loss on extinguishment of debt in 2018, as well as net changes in working capital. Our operating loss also included $7.6 million and $11.3 million in interest expense during 2018 and 2017, respectively. Working capital changes were due to an increase in accounts receivable as a result of higher sales, offset by a reduction in inventories and increases in employee related liabilities and deferred revenue. Inventories decreased to $19.9 million at December 31, 2018 from $27.0 at December 31, 2017 due to an increase in sales demand during the fourth quarter of 2018, and the timing of pump production and certain inventory receipts.

Investing activities. Net cash used by investing activities was $57.0 million for the year ended December 31, 2019, which was primarily related to purchases of short-term investments of $164.6 million and $19.5 million in purchases of property and equipment, offset by $127.2 million in proceeds from maturities and sales of short-term investments. Net cash used by investing activities was $90.7 million for the year ended December 31, 2018, which was primarily related to purchases of short-term investments of $123.6 million using the net proceeds from our public offering of common stock in August of 2018, and $3.0 million in purchases of property and equipment, offset by $35.8 million in proceeds from maturities of short-term investments. Net cash provided by investing activities was $2.8 million for the year ended December 31, 2017, which was primarily related to proceeds from maturities of short-term investments of $8.5 million offset by $5.7 million in purchases of property and equipment.

Financing activities. Net cash provided by financing activities was $24.2 million for the year ended December 31, 2019, which was primarily the result of proceeds of $23.9 million from the issuance of common stock under our stock plans. Net cash provided by financing activities was $117.2 million for the year ended December 31, 2018, which was primarily the result of net proceeds of approximately $172.9 million from the public offerings of our common stock in February 2018 and August 2018, as well as proceeds of $29.6 million from the exercise of common stock warrants that were issued in the public offering of common stock in October 2017, offset by the $87.7 million repayment of our term loan and associated financing fees. Net cash provided by financing activities was $40.4 million for the year ended December 31, 2017, which was primarily the result of net proceeds from the issuance of common stock.

Our liquidity position and capital requirements are subject to fluctuation based on a number of factors. In particular, our cash inflows and outflows are principally impacted by the following:

- our ability to generate sales, the timing of those sales, the mix of products sold and the collection of receivables from period to period;
- the timing of any additional financings, and the net proceeds raised from such financings;
- the timing and amount of the exercise of outstanding warrants, and proceeds from the issuance of equity awards pursuant to employee stock plans;
- fluctuations in gross margins and operating margins; and
- fluctuations in working capital, including changes in accounts receivable, inventories, accounts payable, employee related liabilities, and operating lease liabilities.

Our primary short-term capital needs are expected to include expenditures related to:

- support of our commercialization efforts related to our current and future products;
- expansion of our customer support resources for our growing installed customer base;
- research and product development efforts, including clinical trial costs;
- acquisitions of equipment, technology, intellectual property and other assets;
- additional facilities leases and related tenant improvements, and manufacturing equipment to support business growth and increase manufacturing capacity; and
- payments under licensing, development and commercialization agreements.

Although we believe the foregoing items reflect our most likely uses of cash in the short-term, we cannot predict with certainty all of our particular cash uses or the timing or amount of cash used. In addition, from time to time we may consider opportunities to acquire or license other products or technologies that may enhance our product platform or technology, expand the breadth of our markets or customer base, or advance our business strategies. Any such transaction may require short-term expenditures that may impact our capital needs. If for any reason our cash and cash equivalents balances, or cash generated from operations is insufficient to satisfy our working capital requirements, we may in the future be required to seek additional capital from public or private offerings of our equity or debt securities, or we may elect to borrow capital under new credit arrangements or from other sources. We may also seek to raise additional capital from such offerings or borrowings on an opportunistic basis when we believe there are suitable opportunities for doing so. If we issue equity or debt securities to raise additional funds, our existing stockholders may experience dilution, we may incur significant financing or debt service costs, and the new equity or debt securities may have rights, preferences and privileges senior to those of our existing stockholders. There can be no assurance that financing will be available on acceptable terms, or at all. Our ability to raise additional financing may be negatively impacted by a number of factors, including our recent and projected financial results, recent changes in and volatility of our stock price, perceptions about the dilutive impact of financing transactions, the competitive environment in our industry, and uncertainties regarding the regulatory environment in which we operate.

Indebtedness

Repayment of Term Loan Agreement

In August 2018, we fully repaid our term loan with CRG pursuant to the Term Loan Agreement. The balance of the outstanding debt at the time of repayment was $82.7 million. The total repayment amount of $88.8 million included approximately $1.1 million in accrued interest, and approximately $5.0 million in associated financing fees that became due. Therefore, we did not have any borrowings outstanding under the Term Loan Agreement as of December 31, 2019 and December 31, 2018. At the time of repayment, the remaining $5.3 million debt discount balance associated with the financing fees and certain debt issuance costs was accelerated and recognized as a loss on extinguishment of debt during the third quarter of 2018.

Contractual Obligations & Commitments

The following table summarizes the payments due by fiscal period for our outstanding contractual obligations at December 31, 2019:

	Payments Due by Period				
(in thousands)	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating lease obligations [1][2]	$ 31,464	$ 7,010	$ 15,209	$ 5,269	$ 3,975
Firm purchase commitments [3]	128,215	112,173	16,042	—	—
Total contractual obligations	$ 159,679	$ 119,183	$ 31,251	$ 5,269	$ 3,975

(1) Operating lease obligations of $23.1 million were included in operating lease liabilities current and long-term in the consolidated balance sheet at December 31, 2019 (see Note 5, "Leases"). The additional $8.3 million included in the above table consists of $8.2 million due under the lease of additional general office space located on Shoreline Drive, Boise, Idaho (Shoreline Lease), which we entered into in November of 2019, and $0.1 million related to short-term leases. Minimum annual lease payments under the Shoreline Lease will be approximately $0.5 million in 2020, $1.1 million in 2021 and 2022, $1.2 million in 2023 and 2024, and $3.1 million thereafter. The Company currently estimates that it will recognize the Shoreline Lease operating lease liabilities on the consolidated balance sheet upon the lease commencement in the first quarter of 2020.

(2) Does not include $2.5 million due under the lease of additional general office space located on High Bluff Drive, San Diego, California, which we entered into in January of 2020. Minimum annual lease payments under the lease will be approximately $1.0 million in 2020, $1.2 million in 2021, and $0.3 million in 2022.

(3) Includes purchase orders that are cancellable under the standard terms of our purchase order agreements. In certain cases, cancellation of outstanding purchase commitments may require payment of costs incurred through the date of cancellation.

Critical Accounting Policies Involving Management Estimates and Assumptions

Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about our financial condition and results of operations that are not readily apparent from other sources. Actual results may differ materially from these estimates.

While our significant accounting policies are more fully described in Note 2 to our consolidated financial statements included in this Annual Report, we believe that the following accounting policies are the most critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Our revenue is generated primarily from sales of our insulin pumps, disposable cartridges and infusion sets to individual customers and third-party distributors that resell the product to insulin-dependent diabetes customers. We are paid directly by customers who use the products, distributors and third-party insurance payors. We recognize revenue when control of our products is transferred to our customers in an amount that reflects the consideration we expect to receive from our customers in exchange for those products. This process involves identifying the contract with a customer, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. Revenue recognition for contracts with multiple deliverables is based on the separate satisfaction of each distinct performance obligation within the contract. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. We consider a performance obligation satisfied once we have transferred control of a product to the customer, meaning the customer has the ability to use and obtain the benefit of the product. Complementary products, such as the t:connect cloud-based data management application and the Tandem Device Updater, are considered performance obligations satisfied over time, as access and support for these products is provided throughout the typical four-year warranty period of the insulin pumps. Accordingly, revenue related to the complementary products is deferred and recognized ratably over a four-year period. There is no standalone value for these complementary products. Therefore, we determine their value by applying the expected cost plus a margin approach and then allocate the residual to the insulin pumps.

Warranty Reserve

We generally provide a four-year warranty on our insulin pumps to end user customers and may replace any pumps that do not function in accordance with the product specifications. Insulin pumps returned to us may be refurbished and redeployed. Additionally, we offer a six-month warranty on disposable cartridges and infusion sets. Estimated warranty costs are recorded at the time of shipment. We evaluate the reserve quarterly. Warranty costs are primarily estimated based on the current expected product replacement cost and expected replacement rates utilizing historical experience. Recently released versions of our pump may not incur warranty costs in a manner similar to previously released pumps, on which we initially base our warranty estimate of newer pumps. We may make further adjustments to the warranty reserve when deemed appropriate, giving additional consideration to length of time the pump version has been in the field and future expectations of performance based on new features and capabilities that may become available through Tandem Device Updater. Changes to the actual replacement rates or the expected product replacement cost could have a material impact on our estimated warranty reserve.

Income Taxes

Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against net deferred tax assets. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income for the foreseeable future, determination of cumulative pre-tax book income after permanent differences, earnings history, and reliability of forecasting. We will continue to assess the need for a valuation allowance on our deferred tax assets by evaluating both positive and negative evidence that may exist. Any adjustment to the net deferred tax asset valuation allowance would be recorded in the statement of operations for the period that the adjustment is determined to be required.

Utilization of our net operating loss and research credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations provided by Section 382 of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations may result in the expiration of net operating loss carryforwards before utilization. We have completed an analysis through December 31, 2018 to determine whether our net operating losses and credits are likely to be limited by Section 382. Based on this study, we determined that an ownership change, as defined under Section 382, occurred in 2018 and the resulting limitation significantly reduced our ability to utilize our net operating loss and credit carryovers before they expire. As a result, in 2019 we reduced our deferred tax assets for the net operating loss and research credit carryforwards that are projected to expire unused with a corresponding offset to the valuation allowance recorded against such assets. Additionally, future ownership changes under Section 382 may also limit our ability to fully utilize any remaining tax benefits.

The Company’s income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of the Company’s tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While we believe we have appropriate support for the positions taken on our tax returns, we regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential revisions and adjust the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known.

Off-Balance Sheet Arrangements

As of December 31, 2019, we did not have any off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We invest our excess cash primarily in commercial paper, corporate debt securities, U.S. Government-sponsored enterprise securities and U.S. Treasury securities. Some of the financial instruments in which we invest subject us to market risk, in that a change in prevailing interest rates may cause the principal amount of the instrument to fluctuate. Other financial instruments in which we invest subject us to credit risk, in that the value of the instrument may fluctuate based on the issuer’s ability to pay.

The primary objectives of our investment activities are to maintain liquidity and preserve principal while maximizing the income we receive from our financial instruments without significantly increasing risk. We have established guidelines regarding approved investments and maturities of investments, which are primarily designed to maintain liquidity and preserve principal.

Because of the short-term maturities of our financial instruments, we do not believe that an increase or decrease in market interest rates would have any significant impact on the realized value of our investment portfolio. If a 10% change in interest rates were to have occurred on December 31, 2019, this change would not have had a material effect on the fair value of our investment portfolio as of that date.

Our operations are primarily located in the United States, and nearly all of our sales since inception have been made in U.S. dollars. With the exception of a portion of our sales in Canada, our sales outside of the United States are currently made to independent distributors under agreements denominated in U.S. dollars. Accordingly, we believe we do not currently have any material exposure to foreign currency rate fluctuations. As our business in markets outside of the United States increases, we may be exposed to foreign currency exchange risk. We believe this is currently limited to our operations in Canada, where fluctuations in the rate of exchange between the U.S. dollar and the Canadian dollar could adversely affect our financial results. In addition, from time to time, we may have foreign currency exchange risk related to existing assets and liabilities, committed transactions and forecasted future cash flows. In certain circumstances, we may seek to manage such foreign currency exchange risk by using derivative instruments such as foreign currency exchange forward contracts to hedge our risk. In general, we may hedge foreign currency exchange exposures up to 12 months in advance. However, we may choose not to hedge some exposures for a variety of reasons, including prohibitive economic costs.

Item 8. Consolidated Financial Statements and Supplementary Data

Our consolidated financial statements as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and the Report of the Independent Registered Public Accounting Firm are included in this report as listed in the index.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Tandem Diabetes Care, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Tandem Diabetes Care, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows, for each of the three years in the period ended December 31, 2019 and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 24, 2020 expressed an unqualified opinion thereon.

Adoption of ASU No. 2016-02

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of Accounting Standards Update (ASU) No. 2016-02, *Leases* (*Topic 842*), and the related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Warranty reserve - Estimation of Product Replacement Reserve

Description of the Matter

As discussed in Note 2 to the consolidated financial statements, the Company has a warranty reserve of $16.7 million. The Company provides insulin pump end customers with a four-year warranty and may replace any pumps that do not function in accordance with the product specifications. Warranty costs are estimated at the time of shipment. Management applies significant judgment to determine relevant assumptions to calculate the reserve, including the assessment of historical warranty experience and replacement cost.

Auditing management's warranty reserve on pumps was complex and judgmental due to the significant estimation required by management in determining the value of the warranty reserve. In particular, the warranty reserve estimate is sensitive due to significant assumptions including replacement rates and replacement product costs, especially as it relates to recently released pump versions for which replacement rates specific to that version are not yet known. As such, replacement rates of recently released pumps are based primarily upon historical rates of prior versions which ultimately may not be predictive of the experience of new pumps, due to new features and capabilities of the more recent releases. These assumptions are affected by actual customer experience and changes in these assumptions could have a material impact on the Company's estimated reserve. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to management's significant assumptions in determining the warranty reserve.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the Company's controls over the warranty reserve estimation process. For example, we tested controls over management's review and calculation of significant assumptions underlying the warranty reserve, such as replacement rates and actual replacement product costs, and tested controls over the accuracy and completeness of data used.

To test the Company's warranty reserve, we performed audit procedures that included, among others, testing the completeness and accuracy of the underlying data used in the estimation calculation and evaluated the appropriateness of management's methodology to calculate the warranty reserve. We also evaluated the reasonableness of management's significant assumptions related to replacement rates and replacement cost, including review for contrary evidence. Evaluating management's significant assumptions involved evaluating the historical claims data utilized by management in estimating both the replacement rates and costs of known and anticipated claims. We assessed the historical accuracy of management's estimates by performing a lookback analysis and performing sensitivity analyses of the significant assumptions to evaluate the impact of changes in the warranty reserve that would result from changes in the assumptions. We tested the mathematical accuracy of the warranty reserve calculation and obtained documentation and performed inquiries of Company management to evaluate the completeness of the Company's estimate. In addition, for revisions made to the estimated reserve, we evaluated the reasonableness of the subsequent changes by comparing the revised assumptions to the original estimated assumptions and evaluated the reasons for the subsequent change.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2009

San Diego, CA

February 24, 2020

TANDEM DIABETES CARE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands except par values)

	December 31,	
	2019	**2018**
Assets		
Current assets:		
Cash and cash equivalents	$ 51,175	$ 41,826
Short-term investments	125,283	87,201
Accounts receivable, net	46,585	35,193
Inventories, net	49,073	19,896
Prepaid and other current assets	4,025	3,769
Total current assets	276,141	187,885
Property and equipment, net	32,923	17,151
Operating lease right-of-use assets	15,561	—
Other long-term assets	1,485	1,258
Total assets	$ 326,110	$ 206,294
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 17,745	$ 6,824
Accrued expenses	8,014	3,930
Employee-related liabilities	28,320	24,030
Deferred revenue	3,869	4,600
Common stock warrants	23,509	17,926
Operating lease liabilities	6,320	—
Other current liabilities	11,619	8,978
Total current liabilities	99,396	66,288
Operating lease liabilities - long-term	14,063	—
Other long-term liabilities	17,672	8,731
Total liabilities	131,131	75,019
Commitments and contingencies (Note 10)	—	—
Stockholders' equity:		
Common stock, $0.001 par value; 200,000 shares authorized, 59,396 and 57,554 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively.	59	57
Additional paid-in capital	819,626	731,306
Accumulated other comprehensive income (loss)	122	(13)
Accumulated deficit	(624,828)	(600,075)
Total stockholders' equity	194,979	131,275
Total liabilities and stockholders' equity	$ 326,110	$ 206,294

The accompanying notes are an integral part of the consolidated financial statements.

TANDEM DIABETES CARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share data)

	Year Ended December 31,		
	2019	2018	2017
Sales	$ 362,305	$ 183,866	$ 107,601
Cost of sales	168,093	94,044	63,507
Gross profit	194,212	89,822	44,094
Operating expenses:			
Selling, general and administrative	165,735	105,226	86,377
Research and development	45,199	29,227	20,661
Total operating expenses	210,934	134,453	107,038
Operating loss	(16,722)	(44,631)	(62,944)
Other income (expense), net:			
Interest and other income	3,271	1,462	239
Interest and other expense	(78)	(7,584)	(11,341)
Loss on extinguishment of debt	—	(5,313)	—
Change in fair value of common stock warrants	(11,075)	(66,494)	1,021
Total other expense, net	(7,882)	(77,929)	(10,081)
Loss before income taxes	(24,604)	(122,560)	(73,025)
Income tax expense	149	51	8
Net loss	$ (24,753)	$ (122,611)	$ (73,033)
Other comprehensive loss:			
Unrealized gain (loss) on short-term investments	$ 77	$ (13)	$ 1
Foreign currency translation gain	58	—	—
Comprehensive loss	$ (24,618)	$ (122,624)	$ (73,032)
Net loss per share - basic and diluted	$ (0.42)	$ (2.55)	$ (12.87)
Weighted average shares used to compute basic and diluted net loss per share	58,507	48,129	5,677

The accompanying notes are an integral part of the consolidated financial statements.

TANDEM DIABETES CARE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance at December 31, 2016	3,110	$ 3	$ 398,651	$ (1)	$ (404,580)	$ (5,927)
Exercise of stock options	24	—	270	—	—	270
Issuance of common stock in public offering, net of underwriter's discount and offering costs	6,946	7	33,346	—	—	33,353
Issuance of common stock warrants in connection with term loan	—	—	3,331	—	—	3,331
Issuance of common stock for Employee Stock Purchase Plan	39	—	300	—	—	300
Stock-based compensation	—	—	12,557	—	—	12,557
Unrealized gain on short-term investments	—	—	—	1	—	1
Net loss	—	—	—	—	(73,033)	(73,033)
Balance at December 31, 2017	10,119	$ 10	$ 448,455	$ —	$ (477,613)	$ (29,148)
Exercise of stock options	136	—	1,027	—	—	1,027
Exercise of common stock warrants	8,603	9	29,566	—	—	29,575
Issuance of common stock in public offering, net of underwriter's discount and offering costs	38,535	38	172,891	—	—	172,929
Fair value of common stock warrants at time of exercise	—	—	54,000	—	—	54,000
Issuance of common stock for Employee Stock Purchase Plan	81	—	1,364	—	—	1,364
Stock-based compensation	80	—	24,003	—	—	24,003
Unrealized loss on short-term investments	—	—	—	(13)	—	(13)
Adjustment to retained earnings from adoption of ASC 606	—	—	—	—	149	149
Net loss	—	—	—	—	(122,611)	(122,611)
Balance at December 31, 2018	57,554	$ 57	$ 731,306	$ (13)	$ (600,075)	$ 131,275
Exercise of stock options	1,422	1	17,674	—	—	17,675
Exercise of common stock warrants	93	—	327	—	—	327
Fair value of common stock warrants at time of exercise	—	—	5,492	—	—	5,492
Issuance of common stock for Employee Stock Purchase Plan	327	1	6,205	—	—	6,206
Stock-based compensation	—	—	58,622	—	—	58,622
Unrealized gain on short-term investments, net of deferred tax	—	—	—	77	—	77
Foreign currency translation adjustments	—	—	—	58	—	58
Net loss	—	—	—	—	(24,753)	(24,753)
Balance at December 31, 2019	59,396	$ 59	$ 819,626	$ 122	$ (624,828)	$ 194,979

The accompanying notes are an integral part of the consolidated financial statements.

TANDEM DIABETES CARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2019	**2018**	**2017**
Operating Activities			
Net loss	$ (24,753)	$ (122,611)	$ (73,033)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization expense	6,072	5,821	6,866
Interest expense related to amortization of debt discount and debt issuance costs	—	1,721	1,883
Payment in kind interest accrual of notes payable	—	—	1,657
Provision for allowance for doubtful accounts	2,322	1,448	824
Provision for inventories reserve	2,353	607	26
Change in fair value of common stock warrants	11,075	66,494	(1,021)
Amortization of premium (discount) on short-term investments	(565)	539	(16)
Stock-based compensation expense	58,071	23,736	12,628
Loss on extinguishment of debt		5,313	—
Other	(321)	152	159
Changes in operating assets and liabilities:			
Accounts receivable, net	(13,698)	(15,848)	(10,445)
Inventories, net	(30,975)	6,756	(5,894)
Prepaid and other current assets	(584)	(1,576)	1,831
Other long-term assets	(580)	(26)	4
Accounts payable	8,910	1,641	(1,953)
Accrued expenses	4,076	1,097	1,203
Employee-related liabilities	4,285	9,542	3,873
Deferred revenue	4,589	2,074	(3,906)
Other current liabilities	4,216	2,434	(432)
Other long-term liabilities	7,412	2,367	(390)
Net cash provided by (used in) operating activities	41,905	(8,319)	(66,136)
Investing Activities			
Purchases of short-term investments	(164,572)	(123,553)	—
Proceeds from maturities of short-term investments	114,908	35,800	8,500
Proceeds from sales of short-term investments	12,250	—	—
Purchases of property and equipment	(19,541)	(2,986)	(5,718)
Net cash provided by (used in) investing activities	(56,955)	(90,739)	2,782
Financing Activities			
Principal payments on notes payable	—	(87,711)	—
Proceeds from public offerings, net of offering costs	—	172,929	39,806
Proceeds from issuance of common stock under Company stock plans	23,880	2,391	570
Proceeds from exercise of common stock warrants	327	29,575	—
Net cash provided by financing activities	24,207	117,184	40,376
Effect of foreign exchange rate changes on cash	191	—	—
Net increase (decrease) in cash and cash equivalents and restricted cash	9,348	18,126	(22,978)
Cash and cash equivalents and restricted cash at beginning of period	41,826	23,700	46,678
Cash and cash equivalents and restricted cash at end of period	$ 51,174	$ 41,826	$ 23,700
Supplemental disclosures of cash flow information			
Interest paid	$ —	$ 10,805	$ 7,876
Income taxes paid	$ 67	$ 16	$ 22
Supplemental schedule of non-cash investing and financing activities			
Right-of-use assets obtained in exchange for operating lease obligations	$ 11,635	$ —	$ —
Lease incentive - lessor-paid tenant improvements	$ —	$ 13	$ 3,292
Property and equipment included in accounts payable	$ 2,134	$ 125	$ 92
Debt discount included in other long-term liabilities	$ —	$ —	$ 4,137
Common stock warrants issued in connection with term loan	$ —	$ —	$ 3,331
Unsettled purchase of investments classified as cash equivalents in other current liabilities	$ —	$ 1,708	$ —

The accompanying notes are an integral part of the consolidated financial statements

1. Organization and Basis of Presentation

The Company

Tandem Diabetes Care, Inc. is a medical device company with an innovative approach to the design, development and commercialization of products for people with insulin-dependent diabetes. The Company is incorporated in the state of Delaware. Unless the context requires otherwise, the terms the "Company" or "Tandem" refer to Tandem Diabetes Care, Inc., together with its wholly-owned subsidiary in Canada.

The Company manufactures, sells and supports insulin pump products that are designed to address the evolving needs and preferences of differentiated segments of the insulin-dependent diabetes market. The Company's manufacturing, sales and support activities principally focus on the t:slim X2 Insulin Delivery System (t:slim X2), the Company's flagship pump platform which is capable of remote feature updates and is designed to display continuous glucose monitoring (CGM) sensor information directly on the pump home screen. The Company's insulin pump products are compatible with the Tandem Device Updater, a Mac and PC-compatible tool for the remote update of the Company's insulin pump software. The Company's insulin pump products are generally considered durable medical equipment and have an expected lifespan of at least four years. In addition to insulin pumps, the Company sells disposable products that are used together with the pumps and are replaced every few days, including cartridges for storing and delivering insulin, and infusion sets that connect the insulin pump to a user's body.

The Company has commercially launched seven insulin pumps in the United States since 2012 and two pumps outside the United States since 2018. Four of the insulin pumps have featured CGM technology, and two have featured an automated insulin delivery (AID) algorithm. In June 2018, the t:slim X2 was the first insulin pump designated as compatible with integrated CGM (known as iCGM) devices; in February 2019, the t:slim X2 was the first in a new device category called Alternate Controller Enabled Infusion Pumps (ACE pumps); and in December 2019, Control-IQ technology for the t:slim X2 insulin pump was the first automated insulin dosing software in a new interoperable automated glycemic controller category. The Company believes that the three new classifications by the United States Food and Drug Administration (FDA) for the interoperability of devices for AID will help support continued rapid innovation by streamlining the regulatory pathway for integrated products.

The consolidated financial statements included in this Annual Report have been prepared on a basis that assumes that the Company will continue as a going concern, and do not include any adjustments that may result from the outcome of this uncertainty. This basis of accounting contemplates the recovery of the Company's assets and the satisfaction of the Company's liabilities and commitments in the normal course of business and does not include any adjustments to reflect the possible future effects of the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

As of December 31, 2019, the Company had $176.5 million in cash and cash equivalents and short-term investments. The Company has incurred operating losses since its inception and had an accumulated deficit $624.8 million as of December 31, 2019, which included a net loss of $24.8 million for the year ended December 31, 2019. Management believes that cash and cash equivalents and short-term investments on hand will be sufficient to satisfy the Company's liquidity requirements for at least the next 12 months from the date of this filing.

The Company's ability to execute on its business strategy, meet its future liquidity requirements, and achieve and maintain profitable operations, is dependent on a number of factors, including its ability to continue to gain market acceptance of its products and achieve a level of revenues adequate to support its cost structure, achieve renewal pump sales objectives, develop and launch new products, expand the commercialization of products into new international markets, maximize manufacturing efficiencies, satisfy increasing production requirements, leverage the investments made in its sales, clinical, marketing and customer support organizations, and operate its business and manufacture and sell products without infringing on third party intellectual property rights.

The Company has funded its operations primarily through private and public offerings of equity securities, and through debt financing which has since been fully repaid. The Company may in the future seek additional capital from public or private offerings of equity or debt securities, or it may elect to borrow capital under new credit arrangements or from other sources. If the Company issues equity or debt securities to raise additional funds, its existing stockholders may experience dilution, it may incur significant financing or debt service costs, and the new equity or debt securities may have rights, preferences and privileges senior to those of its existing stockholders. There can be no assurance that equity or debt financing will be available on acceptable terms, or at all.

Basis of Presentation and Principles of Consolidation

The Company has prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The statements include the accounts of Tandem Diabetes Care, Inc. and its wholly-owned subsidiary in Canada. All significant intercompany balances and transactions have been eliminated in consolidation.

The functional currency of our foreign subsidiary is the local currency. We translate the financial statements of our foreign subsidiary into U.S. dollars using period-end exchange rates for assets and liabilities and average exchange rates for each period for revenue, costs and expenses. Translation related adjustments are included in comprehensive loss and in accumulated other comprehensive income (loss) in the equity section of our consolidated balance sheets. Foreign exchange gains or losses resulting from balances denominated in a currency other than the functional currency are recognized in interest and other income or interest and other expense in our consolidated statements of operations.

Reclassifications

Certain reclassifications of prior year amounts related to the presentation of patents and long-term deferred rent on the consolidated balance sheet, and deferred rent on the consolidated statements of cash flows, have been made to conform to the current year presentation.

2. Summary of Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies during the year ended December 31, 2019, as compared to those disclosed in this Annual Report other than adoption of the new lease accounting standard effective January 1, 2019 (see Note 5, "Leases").

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the Company’s consolidated financial statements and accompanying notes as of the date of the consolidated financial statements. Some of those judgments can be subjective and complex, and therefore, actual results could differ materially from those estimates under different assumptions or conditions.

Segment Reporting

Operating segments are identified as components of an enterprise about which discrete financial information is available for evaluation by the chief operating decision-maker (CODM) in making decisions regarding resource allocation and assessing performance. The Company is organized based on its current product portfolio, which consists primarily of insulin pumps, disposable cartridges and infusion sets for the storage and delivery of insulin. The Company views its operations and manages its business as one segment as key operating decisions and resource allocations are made by the CODM using consolidated financial data.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase and that can be liquidated without prior notice or penalty to be cash equivalents.

Short-Term Investments

The Company's short-term investments are classified as available-for-sale securities. Such securities are carried at fair value as determined by prices for identical or similar securities at the balance sheet date. The Company's short-term investments consist of Level 1 and Level 2 financial instruments in the fair value hierarchy. The net unrealized gains or losses on available-for-sale securities are reported as a component of other comprehensive loss within the statements of operations and accumulated other comprehensive gain (loss) as a separate component of stockholders' equity on the consolidated balance sheets. The Company determines the realized gains or losses of available-for-sale securities using the specific identification method and includes net realized gains and losses as a component of other income or expense within the consolidated statements of operations. The Company periodically reviews available-for-sale securities for other than temporary declines in fair value below the cost basis whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. To date, the Company has not identified any other than temporary declines in fair value of its short-term investments.

Accounts Receivable

The Company grants credit to various customers in the ordinary course of business and is paid directly by customers who use the products, distributors and third-party insurance payors. The Company maintains an allowance for doubtful accounts for potential credit losses. Provisions are made based on historical experience, assessment of specific risk, review of outstanding invoices, and various assumptions and estimates that are believed to be reasonable under the circumstances. Uncollectible accounts are written off against the allowance after appropriate collection efforts have been exhausted and when it is deemed that a balance is uncollectible.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and accounts receivable. The Company maintains deposit accounts in federally insured financial institutions in excess of federally insured limits. The Company also maintains investments in money market funds that are not federally insured. Additionally, the Company has established guidelines regarding investment instruments and their maturities, which are designed to maintain preservation of principal and liquidity.

The following table summarizes customers who accounted for 10% or more of accounts receivable, net:

	December 31,	
	2019	**2018**
Byram Healthcare	20.4%	15.5%
CCS Medical, Inc.	10.1%	10.1%

The following table summarizes customers who accounted for 10% or more of sales for the periods presented:

	Year Ended December 31,		
	2019	**2018**	**2017**
Byram Healthcare	15.4%	15.6%	14.0%
RGH Enterprises, Inc.	14.8%	19.4%	21.5%
CCS Medical	N/A	N/A	10.3%

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and employee-related liabilities are reasonable estimates of their fair values because of the short-term nature of these assets and liabilities. Short-term investments are carried at fair value. The Company believes the fair value of its operating lease liabilities at December 31, 2019 approximated their carrying value, based on the borrowing rates that were available for loans with similar terms as of that date. The estimated fair value of certain of the Company's common stock warrants was determined using the Black-Scholes pricing model as of December 31, 2019 and 2018 (see Note 4, "Fair Value Measurements").

Valuation of Inventories

Inventories are valued at the lower of cost or net realizable value, determined by the first-in, first-out method. Inventory is recorded using standard cost, including material, labor and overhead costs. The Company periodically reviews inventories for potential impairment and adjusts inventory for potentially excess or obsolete goods to state inventories at their net realizable value. Factors influencing these adjustments include quantities on hand and firm purchase commitments, expectations of future use, judgments based on quality control testing data and assessments of the likelihood of scrapping or obsoleting certain inventories based on future demand for its products and market conditions.

Long-Lived Assets

Property and Equipment

Property and equipment, which primarily consist of office furniture and equipment, manufacturing equipment, scientific equipment, computer equipment, and leasehold improvements, are stated at cost, less accumulated depreciation. Property and equipment are depreciated over the estimated useful lives of the assets, generally three to seven years, using the straight-line method. Leasehold improvements are amortized over the lesser of the estimated useful lives of the assets or the remaining lease term. Maintenance and repair costs are expensed as incurred.

Operating Lease Right-of-Use Assets and Liabilities

Lease right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized when the Company takes possession of the leased property (the Commencement Date) based on the present value of lease payments over the lease term. Rent expense on noncancelable leases containing known future scheduled rent increases is recorded on a straight-line basis over the term of the respective leases beginning on the Commencement Date. The difference between rent expense and rent paid is accounted for as a component of operating lease right-of-use assets on the Company’s consolidated balance sheet. Landlord improvement allowances and other such lease incentives are recorded as property and equipment and as reduction of the right-of-use leased assets, and are amortized on a straight-line basis as a reduction to operating lease costs. Leases with an initial term of 12 months or less are expensed as incurred and are not recorded as right-of-use assets on the consolidated balance sheets (see Note 5, "Leases").

Patents

Costs associated with the purchase or licensing of patents associated with the Company’s commercialized products are capitalized. The Company reviews its capitalized patent costs periodically to determine that they have future value and an alternative future use. Costs related to patents that the Company is not actively pursuing for commercial purposes are expensed. The Company amortizes patent costs over the lesser of the duration of the patent term or the estimated useful lives of 10 years, beginning with the date the patents are issued or acquired.

The Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated lives of all of its long-lived assets, including property and equipment and acquired patents. The determinants used for this evaluation include management’s estimate of the asset’s ability to generate positive income from operations and positive cash flow in future periods as well as the strategic significance of the asset to the Company’s business objective. The Company has not recognized any impairment losses through December 31, 2019.

Research and Development Costs

All research and development costs are charged to expense as incurred. Such costs include personnel-related costs, including stock-based compensation, supplies, license fees, development prototypes, outside design and testing services, depreciation, allocated facilities and information services, clinical trial costs, milestone payments under the Company’s development and commercialization agreements and other indirect costs.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred income tax assets or liabilities are recognized based on the temporary differences between financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Tax law and rate changes are reflected in income in the period such changes are enacted. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. The Company includes interest and penalties related to income taxes, including unrecognized tax benefits, within income tax expense.

The Company's income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While the Company believes it has appropriate support for the positions taken on its tax returns, the Company regularly assesses the potential outcomes of examinations by tax authorities in determining the adequacy of its provision for income taxes. The Company continually assesses the likelihood and amount of potential revisions and adjusts the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known.

Significant judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and the valuation allowance recorded against net deferred tax assets. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not the future realization of all or some of the deferred tax assets will not be achieved. The evaluation of the need for a valuation allowance is performed on a jurisdiction-by-jurisdiction basis, and includes a review of all available positive and negative evidence. Factors reviewed include projections of pre-tax book income for the foreseeable future, determination of cumulative pre-tax book income after permanent differences, earnings history, and reliability of forecasting. The Company will continue to assess the need for a valuation allowance on its deferred tax assets by evaluating both positive and negative evidence that may exist. Any adjustment to the net deferred tax asset valuation allowance would be recorded in the statement of operations for the period that the adjustment is determined to be required.

The Company is required to file federal and state income tax returns in the United States and various other state jurisdictions and, starting with 2018, a corporation income tax return in Canada. The preparation of these income tax returns requires the Company to interpret the applicable tax laws and regulations in effect in such jurisdictions, which could affect the amount of tax paid by the Company. An amount is accrued for the estimate of additional tax liability, including interest and penalties, for any uncertain tax positions taken or expected to be taken in an income tax return. The Company reviews and updates the accrual for uncertain tax positions as more definitive information becomes available. For further information, see Note 7, "Income Taxes."

Revenue Recognition

Revenue is generated primarily from sales of insulin pumps, disposable cartridges and infusion sets to individual customers and third-party distributors that resell the products to insulin-dependent diabetes customers.

In January 2018, the Company adopted the Revenue from Contracts with Customers Standard which superseded existing revenue guidance under U.S. GAAP and International Financial Reporting Standards. Pursuant to the Revenue from Contracts with Customers Standard's core principle, subsequent to January 1, 2018, the Company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company elected to implement this new standard utilizing the modified retrospective method. Under this approach, the Company applied the new standard to all new contracts initiated on or after the effective date, and for contracts which had remaining obligations as of the effective date the Company recorded an adjustment to the opening balance of accumulated deficit. The accounting for the significant majority of the Company's revenues was not impacted by the new guidance. On January 1, 2018, the Company recorded a net reduction to accumulated deficit in the amount of $149,000, to reflect the impact of the accounting change. Prior to the implementation of this new standard, revenue was recognized when persuasive evidence of an arrangement existed, delivery had occurred and title passed, the price was fixed or determinable, and collectability was reasonably assured.

Revenue Recognition for Arrangements with Multiple Deliverables

The Company considers the individual deliverables in its product offering as separate performance obligations. The transaction price is determined based on the consideration expected to be received, based either on the stated value in contractual arrangements or the estimated cash to be collected in non-contracted arrangements. The Company allocates the consideration to the individual performance obligations and recognizes the consideration based on when the performance obligation is satisfied, considering whether or not this occurs at a point in time or over time. Generally, insulin pumps, cartridges, infusion sets and accessories are deemed performance obligations that are satisfied at a point in time when the customer obtains control of the promised good, which is upon delivery. Complementary products, such as the t:connect cloud-based data management application and the Tandem Device Updater, are considered performance obligations that are satisfied over time, as access and support for these products is provided throughout the typical four-year warranty period of the insulin pumps. Accordingly, revenue related to the complementary products is deferred and recognized ratably over a four-year period. There is no standalone value for these complementary products. Therefore, the Company determines their value by applying the expected cost plus a margin approach and then allocates the residual to the insulin pumps. At December 31, 2019 and 2018, deferred revenue for these performance obligations that are satisfied over time was $3.5 million and $4.3 million, respectively, classified as current deferred revenue. At December 31, 2019, $5.7 million was classified as non-current deferred revenue which is included in other long-term liabilities on the consolidated balance sheets.

Sales Returns

The Company offers a 30-day right of return to its customers from the date of shipment of any of its insulin pumps, provided a physician's confirmation of the medical reason for the return is received. Estimated allowances for sales returns are based on historical returned quantities as compared to pump shipments in those same periods of return. The return rate is then applied to the sales of the current period to establish a reserve at the end of the period. The return rates used in the reserve are adjusted for known or expected changes in the marketplace when appropriate. The allowance for sales returns is recorded as a reduction of revenue and an increase in deferred revenue in the period in which the related sale is recorded. The amount recorded in deferred revenue on the Company's consolidated balance sheets for allowances for sales returns was $0.4 million and $0.3 million at December 31, 2019 and 2018, respectively. Actual product returns have not differed materially from estimated amounts reserved in the accompanying consolidated financial statements.

Warranty Reserve

The Company generally provides a four-year warranty on its insulin pumps to end user customers and may replace any pumps that do not function in accordance with the product specifications. Insulin pumps returned to the Company may be refurbished and redeployed. Additionally, the Company offers a six-month warranty on disposable cartridges and infusion sets. Estimated warranty costs are recorded at the time of shipment. We evaluate the reserve quarterly. Warranty costs are primarily estimated based on the current expected product replacement cost and expected replacement rates utilizing historical experience. Recently released versions of the pump may not incur warranty costs in a manner similar to previously released pumps, on which the Company initially bases its warranty estimate of newer pumps. The Company may make further adjustments to the warranty reserve when deemed appropriate, giving additional consideration to length of time the pump version has been in the field and future expectations of performance based on new features and capabilities that may become available through Tandem Device Updater.

At December 31, 2019 and December 31, 2018, the warranty reserve was $16.7 million and $9.1 million, respectively. The following table provides a reconciliation of the change in estimated warranty liabilities for the years ended December 31, 2019 and 2018:

	December 31,	
(in thousands)	**2019**	**2018**
Balance at beginning of the year	$ 9,138	$ 5,640
Provision for warranties issued during the period	18,335	9,617
Settlements made during the period	(10,167)	(7,797)
Increase (decrease) in warranty estimates	(582)	1,678
Balance at end of the year	$ 16,724	$ 9,138
Current portion	$ 4,707	$ 4,206
Non-current portion	12,017	4,932
Total	$ 16,724	$ 9,138

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the estimated fair value of the award, and the portion that is ultimately expected to vest is recognized as compensation expense over the requisite service period on a straight-line basis. The Company estimates the fair value of stock options issued under the Company's Amended and Restated 2013 Stock Incentive Plan (2013 Plan) and the fair value of the employees' purchase rights under the Company's 2013 Employee Stock Purchase Plan (ESPP) using the Black-Scholes option-pricing model on the date of grant. The Black-Scholes option-pricing model requires the use of assumptions about a number of variables, including stock price volatility, expected term, dividend yield and risk-free interest rate. For awards that vest based on the achievement of service conditions, the Company recognizes expense using the straight-line method less estimated forfeitures based on historical experience.

Common Stock Warrant Liabilities

The Company accounts for certain stock warrants as a liability in the consolidated financial statements when they contain a provision within the warrant contracts that could require cash settlement in the event the Company did not have an active registration statement. The fair value of these common stock warrants is remeasured at each financial reporting period with any changes in fair value being recognized as a component of other income (expense) in the accompanying statements of operations and comprehensive loss.

Advertising Costs

The Company expenses advertising costs as they are incurred. For the years ended December 31, 2019, 2018 and 2017, advertising costs were $0.9 million, $0.9 million, and $1.1 million, respectively.

Shipping and Handling Expenses

Shipping and handling expenses associated with product delivery are included within cost of sales in the Company's statements of operations. Amounts billed to a customer for shipping and handling are reported as revenues.

Comprehensive Loss

All components of comprehensive loss, including net loss, are reported in the consolidated financial statements in the period in which they are recognized. Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources, including unrealized gains and losses on marketable securities and foreign currency translation adjustments.

Net Loss Per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of common shares that were outstanding for the period, without consideration for common stock equivalents. Diluted loss per share is calculated in accordance with the treasury stock method and reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted to common stock. Dilutive common share equivalents are comprised of warrants, potential awards granted pursuant to the ESPP, and stock options outstanding under the Company's equity incentive plans. For warrants that are recorded as a liability in the accompanying consolidated balance sheets, the calculation of diluted loss per share requires that, to the extent the average market price of the underlying shares for the reporting period exceeds the exercise price of the warrants and the presumed exercise of the warrants is dilutive to loss per share for the period, an adjustment is made to net loss used in the calculation to remove the change in fair value of the warrants from the numerator for the period. Likewise, an adjustment to the denominator is required to reflect the related dilutive shares, if any, under the treasury stock method. For the annual periods ended December 31, 2019, 2018 and 2017, there is no difference in the number of shares used to calculate basic and diluted shares outstanding due to the Company's net loss position (see Note 11, "Selected Quarterly Financial Data (Unaudited)" for further details).

Potentially dilutive securities not included in the calculation of diluted net loss per share (because inclusion would be anti-dilutive) are as follows (in common stock equivalent shares, in thousands):

	Year Ended December 31,		
	2019	2018	2017
Warrants to purchase common stock	611	705	—
Options to purchase common stock	5,619	3,477	—
Awards granted under the ESPP	5	4	—
	6,235	4,186	—

Accounting Pronouncements Issued and Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which modifies the measurement and recognition of credit losses for most financial assets and certain other instruments. The new standard requires the use of forward-looking expected credit loss models based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount, which may result in earlier recognition of credit losses under the new standard. The new standard also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income (loss) rather than reducing the carrying amount under the current, other-than-temporary-impairment model. The standard is effective for public business entities for annual periods beginning after December 15, 2019, and interim periods within those years. The Company will implement the new standard in the first quarter of 2020, and does not expect the adoption to have a material financial impact on its consolidated financial statements based on current economic conditions, its outstanding accounts receivable, and the composition and credit quality of its short-term investments.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which adds and modifies certain disclosure requirements for fair value measurements. Under the new guidance, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, or valuation processes for Level 3 fair value measurements. However, public companies will be required to disclose the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and related changes in unrealized gains and losses included in other comprehensive income. The updated guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those periods, with early adoption permitted. The Company will implement the updated guidance in the first quarter of 2020, which will modify certain fair value measurement disclosures primarily related to our Level 3 liabilities.

3. Financial Statement Information

Short-Term Investments

The Company invests in marketable securities, principally debt instruments of the U.S. Government, financial institutions and corporations with strong credit ratings. The following represents a summary of the estimated fair value of short-term investments at December 31, 2019 and 2018 (in thousands):

At December 31, 2019	Maturity (in years)	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Available-for-sale securities:					
Commercial paper	Less than 1	$ 24,147	$ 10	$ —	$ 24,157
U.S. Government-sponsored enterprise	Less than 2	33,073	26	—	33,099
U.S. Treasury securities	Less than 2	17,963	17	(1)	17,979
Corporate debt securities	Less than 2	50,011	42	(5)	50,048
Total		$ 125,194	$ 95	$ (6)	$ 125,283

At December 31, 2018	Maturity (in years)	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Available-for-sale securities:					
Commercial paper	Less than 1	$ 53,559	$ —	$ (22)	$ 53,537
U.S. Treasury securities	Less than 1	17,937	—	(2)	17,935
Corporate debt securities	Less than 1	15,718	12	(1)	15,729
Total		$ 87,214	$ 12	$ (25)	$ 87,201

The Company has classified all marketable securities, regardless of maturity, as short-term investments based upon the Company's ability and intent to use any and all of those marketable securities to satisfy the Company's current liquidity requirements.

The Company periodically reviews the portfolio of available-for-sale debt securities to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. The Company believes that the short-term investments held at December 31, 2019 were not other-than-temporarily impaired. Unrealized losses on available-for-sale debt securities at that date were not significant and were due to changes in interest rates, including credit spreads, and not due to increased credit risks associated with specific securities. The Company does not intend to sell the available-for-sale debt securities that are in an unrealized loss position, and it is not more likely than not that the Company will be required to sell these debt securities before recovery of their amortized cost bases, which may be at maturity.

Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	December 31,	
	2019	2018
Accounts receivable	$ 49,889	$ 37,030
Less allowance for doubtful accounts	(3,304)	(1,837)
Accounts receivable, net	$ 46,585	$ 35,193

The following table provides a reconciliation of the change in estimated allowance for doubtful accounts for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Allowance for Doubtful Accounts
Balance at December 31, 2016	$ 735
Provision for doubtful accounts	824
Write-offs and adjustments, net of recoveries	(524)
Balance at December 31, 2017	$ 1,035
Provision for doubtful accounts	1,448
Write-offs and adjustments, net of recoveries	(646)
Balance at December 31, 2018	$ 1,837
Provision for doubtful accounts	2,322
Write-offs and adjustments, net of recoveries	(855)
Balance at December 31, 2019	$ 3,304

Inventories

Inventories consisted of the following at (in thousands):

	December 31,	
	2019	2018
Raw materials	$ 20,699	$ 6,622
Work-in-process	16,532	2,710
Finished goods	11,842	10,564
Inventories, net	$ 49,073	$ 19,896

Property and Equipment

Property and equipment consisted of the following at (in thousands):

	December 31,	
	2019	2018
Leasehold improvements	$ 13,100	$ 11,313
Computer equipment and software	9,899	8,745
Office furniture and equipment	6,367	4,415
Manufacturing and scientific equipment	33,422	18,306
	62,788	42,779
Less accumulated depreciation and amortization	(29,865)	(25,628)
Property and equipment, net	$ 32,923	$ 17,151

Depreciation and amortization expense related to property and equipment was $5.7 million, $5.5 million, and $6.5 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Intangible Assets Subject to Amortization

Intangible assets subject to amortization consist of patents purchased or licensed that are related to the Company's commercialized products. Capitalized patents at December 31, 2019 and 2018, which are included in other long-term assets on the consolidated balance sheets, are as follows (in thousands):

	December 31,	
	2019	2018
Gross amount	$ 3,247	$ 3,247
Accumulated amortization	(2,470)	(2,117)
Patents, net	$ 777	$ 1,130
Weighted average remaining amortization period (in months)	30	42

Amortization expense related to intangible assets subject to amortization amounted to $0.3 million for each of the years ended December 31, 2019, 2018, and 2017. The amortization expense is recorded in cost of sales in the consolidated statement of operations. The estimated annual amortization is $0.3 million for annual periods 2020 and 2021, and $0.2 million in 2022.

4. Fair Value Measurements

Authoritative guidance on fair value measurements defines fair value, establishes a consistent framework for measuring fair value, and expands disclosures for each major asset and liability category measured at fair value on either a recurring or a nonrecurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Unobservable inputs in which there is little or no market data and that are significant to the fair value of the assets or liabilities, which require the reporting entity to develop its own valuation techniques that require input assumptions.

The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value (in thousands):

		Fair Value Measurements at December 31, 2019		
	December 31, 2019	Level 1	Level 2	Level 3
Assets				
Cash equivalents [1]	$ 43,520	$ 43,520	$ —	$ —
Commercial paper	24,157	—	24,157	—
U.S. Government-sponsored enterprise	33,099	—	33,099	—
U.S. Treasury securities	17,979	17,979	—	—
Corporate debt securities	50,048	—	50,048	—
Total assets	$ 168,803	$ 61,499	$ 107,304	$ —
Liabilities				
Common stock warrants	$ 23,509	$ —	$ —	$ 23,509
Total liabilities	$ 23,509	$ —	$ —	$ 23,509

	December 31, 2018	Fair Value Measurements at December 31, 2018		
		Level 1	Level 2	Level 3
Assets				
Cash equivalents [1]	$ 37,373	$ 37,373	$ —	$ —
Commercial paper	53,537	—	53,537	—
U.S. Treasury securities	17,935	17,935	—	—
Corporate debt securities	15,729	—	15,729	—
Total assets	$ 124,574	$ 55,308	$ 69,266	$ —
Liabilities				
Common stock warrants	$ 17,926	$ —	$ —	$ 17,926
Total liabilities	$ 17,926	$ —	$ —	$ 17,926

(1) Generally, cash equivalents include money market funds and investments with a maturity of three months or less from the date of purchase.

The Company’s Level 2 financial instruments are valued using market prices on less active markets with observable valuation inputs such as interest rates and yield curves. The Company obtains the fair value of Level 2 financial instruments from quoted market prices, calculated prices or quotes from third-party pricing services. The Company validates these prices through independent valuation testing and review of portfolio valuations provided by the Company’s investment managers. There were no transfers between Level 1 and Level 2 securities during the years ended December 31, 2019 and 2018.

The Company's Level 3 liabilities at December 31, 2019 and 2018 included the Series A warrants issued by the Company in connection with the public offering of common stock in October 2017. The Series A warrants have a term of five years and initially provided holders the right to purchase 4,630,000 shares of the Company’s common stock at an exercise price of $3.50 per share. The Series A warrants were initially valued in the aggregate amount of $5.2 million on the date of issuance utilizing a Black-Scholes pricing model.

The Company reassesses the fair value of the outstanding Series A warrants at each reporting date utilizing a Black-Scholes pricing model. Inputs used in the pricing model include estimates of stock price volatility, expected warrant life and risk-free interest rate. The Company develops its estimates based on publicly available historical data. The assumptions used to estimate the fair values of the outstanding Series A warrants at December 31, 2019 and 2018 are presented below:

	Series A Warrants	
	December 31, 2019	December 31, 2018
Risk-free interest rate	1.6%	3.0%
Expected dividend yield	0.0%	0.0%
Expected volatility	77.2%	78.3%
Expected term (in years)	2.8	3.8

The following table presents a summary of changes in fair value of the Company’s total Level 3 financial assets for the years ended December 31, 2019 and 2018:

	2019	2018
Balance at beginning of year	$ 17,926	$ 5,432
Increase in fair value included in change in fair value of common stock warrants	11,075	66,494
Decrease in fair value from warrants exercised during the period	(5,492)	(54,000)
Balance at end of year	$ 23,509	$ 17,926

During the year ended December 31, 2019, the Company issued 93,470 shares of common stock upon the exercise of Series A warrants. During the year ended December 31, 2018, the Company issued 8,603,321 shares of common stock upon the exercise of certain warrants issued in October 2017, and 13,450 warrants expired unexercised. As of December 31, 2019, there were Series A warrants outstanding to purchase 417,315 shares of the Company's common stock (see Note 6, "Stockholders' Equity").

5. Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard and its related amendments (collectively referred to as ASC 842) requires lessees to recognize right-of-use assets and corresponding lease liabilities for all leases with lease terms of greater than 12 months. It also changed the definition of a lease and expanded the disclosure requirements of lease arrangements. In July 2018, the FASB added a transition option for implementation of the standard that allowed companies to continue to use the legacy guidance in ASC 840, *Leases*, including its disclosure requirements, in the comparative periods presented in the year of adoption. The new standard must be adopted using the modified retrospective approach and was effective for the Company starting in the first quarter of fiscal 2019. The Company elected the transition option and certain practical expedients, resulting in the recognition of right-of-use leased assets and corresponding operating lease liabilities of $12.4 million on the consolidated balance sheet upon adoption of the standard as of January 1, 2019. The Company did not restate prior periods. Deferred rent of $1.0 million and $3.8 million as of January 1, 2019 was reclassified from other current liabilities and deferred rent long-term, respectively, to a reduction of the right-of-use leased assets in connection with the adoption of the standard.

The Company's leases consist primarily of operating leases for general office space, laboratory, manufacturing and warehouse facilities, and equipment. Leases with an initial term of 12 months or less are not recorded on the balance sheets. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. Because the Company's leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of future lease payments. The Company used the incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date. For lease agreements entered into or reassessed after the adoption of ASC 842, the Company combines lease and non-lease components.

Certain leases include an option to renew, with renewal terms that can extend the lease term for additional periods. The exercise of lease renewal options is at the Company's sole discretion. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option that is reasonably certain to be exercised.

In January 2019, the Company entered into a lease agreement for approximately 25,332 square feet of additional general administrative office space (Initial Premises) located at 10935 Vista Sorrento Parkway, San Diego, California (Vista Sorrento Parkway Lease). The lease term for the Initial Premises commenced in March 2019 and expires in September 2022. In May 2019, the Company entered into a First Amendment to the Vista Sorrento Parkway Lease (First Amendment) to expand the leased premises by adding approximately 33,681 square feet of additional general administrative office space (Expansion Space), and to extend the lease term for the Initial Premises through January 2023. The lease term for the Expansion Space commenced in May 2019 and expires in January 2023. The Company has a one-time option to extend the term of the Vista Sorrento Parkway Lease, covering both the Initial Premises and the Expansion Space, for a period of four years. The Company recognized right-of-use leased assets and corresponding operating lease liabilities of $3.1 million on the consolidated balance sheet related to the Initial Premises, and $4.7 million related to the First Amendment to the Vista Sorrento Parkway Lease.

In March 2019, the Company entered into a lease agreement for approximately 40,490 square feet of space located at 6495 Marindustry Place, San Diego, California to house additional operations functions, including warehousing and shipping (Marindustry Place Lease). The lease term commenced in May 2019 and expires in April 2026. The Company has a one-time option to extend the term of the Marindustry Place Lease for a period of no less than three years and no more than five years. The Company recognized right-of-use leased assets and corresponding operating lease liabilities of $3.4 million on the consolidated balance sheet related to the Marindustry Place Lease.

The Company's total lease cost recorded in the consolidated statements of operations was $5.7 million for the year ended December 31, 2019, which included $5.5 million of operating lease cost and $0.2 million of short-term lease cost. Rent expense for the years ended December 31, 2018 and 2017 was $2.6 million and $3.5 million, respectively. Cash paid for amounts included in the measurement of lease liabilities, representing operating cash flows from operating leases, was $4.3 million for the year ended December 31, 2019.

Maturities of operating lease liabilities at December 31, 2019 were as follows (in thousands):

Year Ending December 31,		
2020	$	6,320
2021		7,100
2022		5,880
2023		2,232
2024		695
Thereafter		883
Total undiscounted lease payments		23,110
Less: amount representing interest		(2,727)
Present value of operating lease liabilities		20,383
Less: current portion of operating lease liabilities		(6,320)
Operating lease liabilities - long-term	$	14,063

As of December 31, 2019, the weighted average remaining lease term for operating leases was 3.6 years and the weighted-average discount rate used to determine the operating lease liabilities was 6.6%.

In November 2019, the Company entered into a lease agreement for approximately 94,562 square feet of additional general office space located in Boise, Idaho (Shoreline Lease). Subject to limited exceptions, the initial lease term is expected to commence on the earlier of (i) the date on which the Company substantially completes certain specified work related to tenant improvements, (ii) the date on which the Company commences use of the premises, or (iii) July 1, 2020 (the Commencement Date), and will expire 84 months from the first day of the first full month following the Commencement Date. The Company has a one-time option to extend the term of the Shoreline Lease for a period of three years. The Company currently estimates that it will recognize right-of-use leased assets and corresponding operating lease liabilities of approximately $6.6 million on the consolidated balance sheet upon the lease commencement in the first quarter of 2020. Future minimum payments due under the Shoreline Lease are approximately $8.2 million.

6. Stockholders' Equity (Deficit)

Public Offerings

In the first quarter of 2017, the Company completed a registered public offering of 1,850,000 shares of common stock at a public offering price of $12.50 per share. The gross proceeds from the offering were approximately $23.1 million, before deducting underwriting discounts and commissions and other offering expenses.

From July 2017 through September 2017, the Company sold 464,108 shares of common stock under our "at-the-market" offering program at prices ranging from $5.64 to $10.54. The gross proceeds from the offering were $4.3 million, before deducting underwriting discounts and commissions and other offering expenses.

In the fourth quarter of 2017, the Company completed the October Financing, pursuant to which it sold 4,630,000 shares of common stock, Series A warrants to purchase up to 4,630,000 shares of our common stock and Series B warrants to purchase up to 4,630,000 shares of common stock at a public offering price of $3.50 per share and accompanying warrants (October Financing). The gross proceeds from the October Financing were approximately $16.2 million, before deducting underwriting discounts and commissions and other offering expenses.

In the first quarter of 2018, the Company completed a registered public offering of 34,500,000 shares of common stock at a public offering price of $2.00 per share. The gross proceeds from the offering were approximately $69.0 million, before deducting underwriting discounts and commissions and other offering expenses.

In the third quarter of 2018, the Company completed a public offering of 4,035,085 shares of common stock at a public offering price of $28.50 per share. The gross proceeds to the Company from the offering were $115.0 million, before deducting underwriting discounts and commissions and other offering expenses payable by the Company.

Shares Reserved for Future Issuance

The following shares of the Company's common stock were reserved for future issuance at December 31, 2019 (in thousands):

Shares underlying outstanding warrants	710
Shares underlying outstanding stock options	7,175
Shares authorized for future equity award grants	3,143
Shares authorized for issuance pursuant to awards granted under the ESPP	1,692
	12,720

Common Stock Warrants

As of December 31, 2019, there were Series A warrants outstanding to purchase 417,315 shares of the Company's common stock at an exercise price of $3.50 per share, which were issued in connection with the October 2017 Financing, and which expire in October 2022. Also outstanding as of December 31, 2019, were warrants to purchase 193,788 shares of the Company's common stock at an exercise price of $23.50 per share, which were issued in March 2017, and which expire in March 2027 (see Note 8, "Term Loan Agreement"), and warrants to purchase 98,965 shares of the Company's common stock at an exercise price of $73.73 per share, which were issued between August 2011 and August 2012, and which expire between August 2021 and August 2022.

The Company issued 93,470 and 8,603,321 shares of its common stock upon the exercise of warrants during the years ended December 31, 2019 and 2018, respectively.

Stock Plans

In September 2006, the Company adopted the Company’s 2006 Stock Incentive Plan (2006 Plan), under which, as amended, 268,561 shares of common stock were reserved for issuance to employees, non-employee directors and consultants of the Company. The 2006 Plan was closed in 2013 with the approval of the 2013 Plan and no further options will be granted under the 2006 Plan.

In October 2013, the Company’s board of directors approved the 2013 Plan. The 2013 Plan became effective immediately prior to the completion of the Company's initial public offering. An initial 480,900 shares of common stock were reserved for issuance under the 2013 Plan. Under the 2013 Plan, the Company may grant stock options, stock appreciation rights, restricted stock and restricted stock units to individuals who are then employees, officers, directors or consultants of the Company. The 2013 Plan also included an “evergreen” provision, which automatically increased the shares available for issuance January 1 of each year by 4% of common shares outstanding. Accordingly, the shares available for issuance under the 2013 Plan were increased by 404,776 shares and 124,382 shares on January 1, 2018 and 2017, respectively. In June 2018, the Company received approval from its stockholders to increase the number of shares of common stock reserved under the 2013 Plan by 5,500,000 shares, and to remove the evergreen provision. In June 2019, the Company received approval from its stockholders to increase the number of shares of its common stock reserved for issuance under the 2013 Plan by an additional 5,000,000 shares.

The Company issued 1,418,953 and 136,042 shares of its common stock, respectively, upon the exercise of stock options during the years ended December 31, 2019 and 2018.

As of December 31, 2019, there were 3,142,690 shares were available for future issuance under the 2013 Plan, and options to purchase 7,174,927 shares have been granted and are outstanding under the 2006 Plan and 2013 Plan.

Common Stock Options

The maximum term of stock options granted under the 2006 Plan and 2013 Plan is ten years. The options generally vest 25% on the first anniversary of the original vesting date, with the balance vesting monthly over the remaining three years.

The following table summarizes stock option activities for the 2006 Plan and 2013 Plan:

	Total Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2017	1,331,269	$ 47.11	8.08	$ —
Granted	4,730,956	$ 20.34		
Exercised	(136,042)	$ 7.55		$ 3,953
Canceled/forfeited/expired	(162,991)	$ 45.46		$ 1,466
Outstanding at December 31, 2018	5,763,192	$ 23.61	8.94	$ 116,988
Granted	3,026,511	$ 54.62		
Exercised	(1,418,953)	$ 12.46		$ 71,808
Canceled/forfeited/expired	(195,823)	$ 42.93		$ 4,190
Outstanding at December 31, 2019	7,174,927	$ 38.40	8.45	$ 181,408
Vested and expected to vest at December 31, 2019	7,074,615	$ 38.30	8.44	$ 179,865
Exercisable at December 31, 2019	3,162,475	$ 29.58	7.75	$ 119,653

Employee Stock Purchase Plan

In October 2013, the Company adopted the ESPP, which enables eligible employees to purchase shares of the Company's common stock using their after-tax payroll deductions, subject to certain conditions. The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Code. Eligible employees may contribute, normally through payroll deductions, up to 15% of their earnings for the purchase of common stock under the ESPP. The purchase price of common stock under the ESPP is the lesser of: (a) 85% of the fair market value of a share of the Company's common stock on the first date of an offering or (b) 85% of the fair market value of a share of the Company's common stock on the date of purchase. Generally, the ESPP consists of a two-year offering period with four six-month purchase periods.

The ESPP initially authorized the issuance of 55,600 shares of common stock pursuant to purchase rights granted to employees. The number of shares of common stock reserved for issuance increased on January 1 of each calendar year, from January 1, 2014 through January 1, 2018, by the lesser of (a) one percent of the number of shares issued and outstanding on the immediately preceding December 31, or (b) such lesser number of shares as determined by the Administrator. On January 1, 2018 and 2017, the number of shares of common stock reserved for issuance under the ESPP was automatically increased by 31,096 and 101,194 shares, respectively. In June 2018, the Company received approval from its stockholders to increase the number of shares reserved for issuance under the ESPP by 2,000,000 shares and to remove the evergreen provision.

During the years ended December 31, 2019 and 2018, 329,072 shares and 80,581 shares of our common stock, respectively, were purchased under the ESPP for proceeds of $6.2 million and $1.4 million, respectively.

The ESPP was previously suspended in May 2017 due to a lack of available shares. The suspension was accounted for as a cancellation of an award with no consideration. The previously unrecognized compensation cost of $2.4 million was expensed in 2017 as of the suspension date.

Stock-Based Compensation

In June 2019, the Company granted options to purchase 1,644,715 shares of common stock under the 2013 Plan, which were originally awarded between February 2019 and June 2019, subject to and conditioned upon the approval by its stockholders of an increase in the number of shares of common stock reserved for issuance under the 2013 Plan. In total, the Company granted options to purchase 3,026,511 shares of common stock under the 2013 Plan during the year ended December 31, 2019. These options have an exercise price equal to the closing price of the Company's common stock on the applicable award date, and generally vest as to 25% of the underlying shares on the first anniversary of the award, with the balance of the options vesting monthly over the following three years.

In June 2018, the Company granted options to purchase 811,800 shares of common stock under the 2013 Plan, which were originally awarded in December 2017, subject to and conditioned upon the approval by its stockholders of an increase in the number of shares of common stock authorized under the 2013 Plan. These options have an exercise price equal to the closing price of the Company's common stock on the applicable award date, and generally vest as to 50% of the underlying shares on the first anniversary of the award, with the balance of the options vesting monthly over the following year.

The Company also granted options to purchase 3,919,956 shares of common stock under the 2013 Plan during the year ended December 31, 2018. These options have an exercise price equal to the closing price of the Company's common stock on the applicable award date, and generally vest as to 25% of the underlying shares on the first anniversary of the award, with the balance of the options vesting monthly over the following three years, except with respect to options to purchase 3,389,300 shares of common stock granted in June 2018, which vest as to 50% of the underlying shares on the first anniversary of the award, with the balance of the options vesting monthly over the following year.

The following table summarizes the allocation of stock-based compensation expense included in the consolidated statements of operations for all stock-based compensation arrangements (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Cost of sales	$ 6,415	$ 2,581	$ 1,360
Selling, general & administrative	42,857	16,824	10,020
Research and development	8,799	4,331	1,248
Total	$ 58,071	$ 23,736	$ 12,628

The total stock-based compensation capitalized as part of the cost of the Company’s inventories was $1.3 million and $0.8 million at December 31, 2019 and 2018, respectively.

At December 31, 2019, the total unamortized stock-based compensation expense of approximately $104.0 million will be recognized over the remaining weighted average vesting term of approximately three years.

The assumptions used in the Black-Scholes option-pricing model are as follows:

	Stock Options		
	Year Ended December 31,		
	2019	2018	2017
Weighted average grant date fair value (per share)	$ 39.06	$ 12.94	$ 2.65
Risk-free interest rate	2.1%	2.8%	2.1%
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility	71.8%	71.4%	60.8%
Expected term (in years)	6.0	5.7	5.8

	ESPP		
	Year Ended December 31,		
	2019	2018	2017[(1)]
Weighted average grant date fair value (per share)	$ 30.32	$ 13.48	N/A
Risk-free interest rate	1.9%	2.5%	N/A
Expected dividend yield	0.0%	0.0%	N/A
Expected volatility	69.9%	81.2%	N/A
Expected term (in years)	1.3	1.3	N/A

(1) There were no grants made pursuant to the ESPP during the year ended December 31, 2017.

Risk-free Interest Rate. The risk-free interest rate assumption was based on the United States Treasury’s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued.

Expected Dividend Yield. The expected dividend yield is zero because the Company has never declared or paid any cash dividends and does not presently plan to pay cash dividends in the foreseeable future.

Expected Volatility. The expected volatility is estimated based on a weighted-average volatility of the Company's actual historical volatility since its initial public offering in November 2013, and the historical stock volatilities of a peer group of similar companies whose share prices are publicly available. The Company continued to use the historical volatility of peer entities during 2019 due to the lack of sufficient historical data of its stock price. The peer group consisted of other publicly traded companies in the same industry and in a similar stage of development.

Expected Term. The Company utilized the simplified method for estimating the expected term of stock option grants. Under this approach, the weighted-average expected term is presumed to be the average of the vesting term and the contractual term of the option. The Company estimates the expected term of the ESPP using expected life for each tranche during the two-year offering period.

The Company also estimates forfeitures at the time of grant, and revises those estimates in subsequent periods if actual forfeitures differ from its estimates. Historical data was used to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest.

7. Income Taxes

The components of income tax expense (benefit) were as follows (in thousands):

	Year Ended December 31,		
	2019	**2018**	**2017**
Current:			
Federal	$ —	$ —	$ —
State	86	51	8
Foreign	88	—	—
Total current tax expense	174	51	8
Deferred:			
Federal	(21)	—	—
State	(4)	—	—
Foreign	—	—	—
Total deferred income tax benefit	(25)	—	—
Income tax expense	$ 149	$ 51	$ 8

The expense (benefit) for income taxes reconciles to the amount computed by applying the federal statutory rate to loss before taxes as follows (in thousands):

	Year Ended December 31,(1)		
	2019	**2018**	**2017**
Income tax benefit at federal statutory rate	$ (5,167)	$ (25,738)	$ (24,829)
State income tax, net of federal benefit	(1,174)	(1,649)	(2,034)
Warrants revaluation	2,326	13,964	(347)
Research and development credits	(2,091)	(1,425)	(480)
Section 382 limitation	25,043	—	—
Stock-based compensation	(8,974)	1,362	3,214
Officers' compensation	3,133	—	—
Tax Cuts and Jobs Act of 2017	—	—	51,577
Other	972	681	138
Change in valuation allowance	(13,919)	12,856	(27,231)
Income tax expense	$ 149	$ 51	$ 8

(1) For the years ended December 31, 2019 and 2018, as a result of the 2017 Tax Act, the federal statutory rate was 21%. For the year ended and 2017, the federal statutory rate was 34%.

Significant components of the Company's net deferred income tax assets at December 31, 2019 and 2018 are shown below (in thousands). The Company assesses all available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative book loss incurred over the three-year period ended December 31, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as projections for future growth. On the basis of this analysis, a valuation allowance of $109.6 million and $123.5 million at December 31, 2019 and 2018, respectively, has been recorded to offset the net deferred tax asset as realization of such asset is uncertain. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for future growth.

	December 31,	
	2019	**2018**
Deferred tax assets:		
Net operating loss (NOL) carryforwards	$ 66,642	$ 85,761
Research and development tax credits carryforwards	5,931	4,942
Capitalized research and development expenses	8,745	10,759
Accrued compensation	19,794	13,816
Lease liabilities	5,733	196
Other	9,350	8,042
Total deferred tax assets	116,195	123,516
Deferred tax liabilities:		
Lease assets	(4,570)	—
Other	(2,026)	—
Total deferred tax liabilities	(6,596)	—
Less valuation allowance	(109,599)	(123,516)
Net deferred tax assets	$ —	$ —

As of December 31, 2019, the Company had accumulated federal and state NOL carryforwards of approximately $248.7 million, and $250.8 million, respectively, Of the total federal net operating loss carryforwards, approximately $40.2 million were generated after January 1, 2018, and therefore do not expire. NOL generated after January 1, 2018, is subject to 80% limitation in accordance with the Tax Cuts and Jobs Act of 2017. The remaining federal net operating loss carryforwards of $208.5 million will begin to expire in 2026, and state tax loss carryforwards begin to expire in 2020, unless previously utilized. The remaining California NOL carryforwards of $154.4 million will begin expiring in 2028. The Company has no foreign tax loss carryforwards as of December 31, 2019.

The Company also has federal and California research credit carryforwards of approximately $2.8 million and $7.9 million, respectively, as of December 31, 2019. The federal research credit carryforwards will begin expiring in 2028, unless previously utilized. The California research credit will carry forward indefinitely.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting* (ASU 2016-09), which simplified how several aspects of share-based payments are accounted for and presented in the consolidated financial statements. ASU 2016-09 was effective for public companies, and was adopted by the Company, in 2017. Upon adoption of ASU 2016-09, the balance of unrecognized excess tax benefits of approximately $1.8 million, for which a benefit could not be previously recognized, was reversed with the impact recorded to retained earnings which was fully offset by a change to the valuation allowance.

Utilization of the Company's net operating loss and research credit carryforwards may be subject to a substantial annual limitation due to ownership change limitations provided by Section 382 of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations may result in the expiration of net operating loss carryforwards before utilization. The Company has completed an analysis through December 31, 2018 to determine whether its net operating losses and credits are likely to be limited by Section 382. Based on this study, the Company determined that an ownership change, as defined under Section 382, occurred in 2018 and the resulting limitation significantly reduced the Company's ability to utilize its net operating loss and credit carryovers before they expire. As a result, in 2019 the Company reduced its deferred tax assets for the net operating loss and research credit carryforwards that are projected to expire unused with a corresponding offset to the valuation allowance recorded against such assets. Additionally, future ownership changes under Section 382 may also limit the Company's ability to fully utilize any remaining tax benefits.

The evaluation of uncertainty in a tax position is a two-step process. The first step involves recognition. The Company determines whether it is more likely than not that a tax position will be sustained upon tax examination, including resolution of any related appeals or litigation, based on only the technical merits of the position. The technical merits of a tax position are derived from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax position. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution with a taxing authority.

The following table summarizes the activity related to the Company's gross unrecognized tax benefits at the beginning and end of the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	**2018**	**2017**
Gross unrecognized tax benefits at the beginning of the year	$ 8,824	$ 8,121	$ 8,167
Increases related to current year positions	1,076	644	411
Increases (decreases) related to prior year positions	(3,320)	59	(457)
Gross unrecognized tax benefits at the end of the year	$ 6,580	$ 8,824	$ 8,121

As of December 31, 2019, the Company had $5.5 million of unrecognized tax benefits that, if recognized and realized would impact the effective tax rate, subject to the valuation allowance.

The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense. The Company had no accrual for interest and penalties on the Company's consolidated balance sheets and has not recognized interest and penalties in the consolidated statements of operations for the years ended December 31, 2019 and 2018. The Company does not expect any significant increases or decreases, other than the potential reduction as a result of the Section 382 limitation, to its unrecognized tax benefits within the next 12 months.

The Company is subject to taxation in the United States and various other state jurisdictions and, starting with 2018, Canada. For the years ended December 31, 2019, the domestic and foreign components of loss before income taxes were $24.9 million and income before tax of $0.3 million, respectively. Prior to 2019, the losses were all domestic. The Company's tax years from 2006 (inception) are subject to examination by the United States and state authorities due to the carry forward of unutilized NOLs and research and development credits.

In 2017, the Tax Cuts and Jobs Act (2017 Tax Act) was enacted. The 2017 Tax Act included a number of changes to existing U.S. tax laws that impacted the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. The 2017 Tax Act also provided for the acceleration of depreciation for certain assets placed in service after September 27, 2017 as well as prospective changes beginning in 2018, including additional limitations on executive compensation, limitations on the deductibility of interest and capitalization of research and development expenditures.

Reduction of the U.S. Corporate Income Tax Rate: The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the Company's deferred tax assets and liabilities were remeasured in 2017 upon enactment of the 2017 Tax Act to reflect the reduction in the U.S. corporate income tax rate from the highest graduated tax 35% to a 21% flat tax. As a result of the tax rate change, in 2017 we recorded a decrease to our deferred tax assets of $51.6 million and the valuation allowance was decreased by the same amount, resulting in no net tax expense.

The 2017 Tax Act no longer allows deductions for compensation in excess of $1.0 million for certain employees, even if paid as commissions or performance-based compensation. It also subjects the principal executive officer, principal financial officer and three other highest paid officers to the limitation and once the individual becomes a covered person, the individual will remain a covered person for all future years.

8. Term Loan Agreement

In August 2018, the Company fully repaid the term loan made by Capital Royalty Partners II, L.P. and its affiliated funds (CRG) pursuant to the Amended and Restated Term Loan Agreement (Term Loan Agreement). The balance of the outstanding debt during 2018 up until the time of repayment was $82.7 million, and was included in notes payable long-term in the consolidated balance sheet, offset by the debt discount associated with financing fees and certain debt issuance costs. Such discounts were amortized to interest expense over the term of the loan using the effective interest method. At the time of repayment, the remaining unamortized debt discount of $5.3 million was accelerated and recognized as a loss on extinguishment of debt in the consolidated statement of operations for the year ended December 31, 2018. The total repayment amount of $88.8 million included approximately $1.1 million in accrued interest, and approximately $5.0 million in associated financing fees that became due. As a result of the repayment, the Company did not have any borrowings outstanding under the Term Loan Agreement as of December 31, 2019 or December 31, 2018.

Under the Term Loan Agreement, interest was payable at the Company’s option, (i) in cash at a rate of 11.5% per annum, or (ii) at a rate of 9.5% of the 11.5% per annum in cash and 2.0% of the 11.5% per annum (PIK Loan) to be added to the principal of the loan and subject to accruing interest.

The Company entered into a series of amendments to the Term Loan Agreement between 2016 and 2018, which included the addition of a financing fee payable at the maturity of the Company’s loans, the issuance of 193,788 ten-year warrants to CRG to purchase shares of the Company’s common stock at an exercise price of $23.50 per share, and certain other minimum financing covenants. The financing fee was applicable to the entire aggregate principal amount of borrowings outstanding, including total PIK Loans issued. As of December 31, 2019, the warrants to purchase 193,788 shares of the Company's common stock at an exercise price of $23.50 per share remained outstanding.

9. Employee Benefits

Employee 401(k) Plan

The Company has a defined contribution 401(k) plan for employees in the United States who are at least 18 years of age. Employees are eligible to participate in the plan beginning on the first day of the calendar month following their date of hire. Unless they affirmatively elect otherwise, employees are automatically enrolled in the plan following 30 days from date of rehire or entry date. Under the terms of the plan, employees may make voluntary contributions as a percent of compensation. The Company does not provide a matching contribution program.

10. Commitments and Contingencies

Legal and Regulatory Matters

From time to time, the Company may be subject to legal proceedings or regulatory matters arising in the ordinary course of business, including actions with respect to intellectual property, employment, regulatory, product liability and contractual matters. In connection with these proceedings or matters, the Company regularly assesses the probability and amount (or range) of possible issues based on the developments in these proceedings or matters. A liability is recorded in the consolidated financial statements if it is determined that it is probable that a loss has been incurred, and that the amount (or range) of the loss can be reasonably estimated. Because of the uncertainties related to any pending proceedings or matters, the Company is currently unable to predict their ultimate outcome and, with respect to any legal proceeding or regulatory matter where no liability has been accrued, to make a reasonable estimate of the possible loss (or range of loss) that could result from an adverse outcome. At December 31, 2019 and 2018, there were no legal proceedings, regulatory matters, or other disputes or claims for which a material loss was considered probable or for which the amount (or range) of loss was reasonably estimable. However, regardless of the outcome, legal proceedings, regulatory matters, and other disputes and claims can have an adverse impact on the Company because of legal costs, diversion of management time and resources, and other factors.

Operating Leases

The Company leases general office space, laboratory, manufacturing and warehouse facilities, and equipment under noncancelable operating leases. These noncancelable operating leases have initial lease terms from one year to seven years, and the majority of the Company's leases include an option to extend the term of the lease, generally for a period of three to five years. The Company has the right to terminate the lease on the remaining Roselle Street buildings, which expires in May 2022, effective May 31, 2021 upon (i) delivery of written notice to the landlord no later than June 1, 2020, and (ii) an early termination payment to the landlord of approximately $0.4 million.

In connection with one of the operating leases, the Company has a $0.5 million unsecured standby letter of credit arrangement with a bank under which the landlord of the building is the beneficiary. The expiration of the standby letter of credit is July 15, 2022.

Future minimum payments due under noncancelable operating leases as of December 31, 2019 were as follows (in thousands):

Year Ending December 31,		
2020	$	7,010
2021		8,201
2022		7,008
2023		3,388
2024		1,881
Thereafter		3,975
Total	$	31,463

Future minimum payments due under operating leases of $23.1 million were included in operating lease liabilities current and long-term in the consolidated balance sheet at December 31, 2019 (see Note 5, "Leases"). The additional $8.3 million included in the above table consists of $8.2 million due under the lease of additional general office space located on Shoreline Drive, Boise, Idaho, which we entered into in November of 2019, and $0.1 million related to short-term leases. Minimum annual lease payments under the Shoreline Lease will be approximately $0.5 million in 2020, $1.1 million in 2021 and 2022, $1.2 million in 2023 and 2024, and $3.1 million thereafter. The Company currently estimates that it will recognize the Shoreline Lease operating lease liabilities on the consolidated balance sheet upon the lease commencement in the first quarter of 2020.

Purchase Obligations

The Company has agreements with suppliers and other parties to purchase inventory, other goods and services and long-lived assets. Product inventory obligations primarily consist of purchase commitments for raw materials used in the production of insulin pumps and cartridges, and finished goods infusion sets. Cancellation of outstanding purchase commitments is generally allowed but requires payment of certain costs incurred through the date of cancellation. At December 31, 2019, obligations under our purchase agreements totaled $128.2 million, of which $112.2 million is due within one-year.

11. Selected Quarterly Financial Data (Unaudited)

The following financial information reflects all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Quarterly financial information for fiscal 2019 and 2018 is presented in the following table, in thousands, except per share data:

	For the Quarter Ended			
	March 31	June 30	September 30	December 31
2019				
Sales	$ 65,995	$ 93,255	$ 94,657	$ 108,398
Gross profit	$ 33,353	$ 49,904	$ 50,683	$ 60,272
Operating expenses	$ 44,350	$ 51,769	$ 56,687	$ 58,128
Operating income (loss)	$ (10,997)	$ (1,865)	$ (6,004)	$ 2,144
Net income (loss)	$ (22,992)	$ (1,512)	$ (2,901)	$ 2,652
Basic net income (loss) per share [(1)(2)]	$ (0.40)	$ (0.03)	$ (0.05)	$ 0.04
Diluted net income (loss) per share [(1)(2)]	$ (0.40)	$ (0.03)	$ (0.09)	$ 0.04
2018				
Sales	$ 27,277	$ 34,126	$ 46,264	$ 76,199
Gross profit	$ 11,404	$ 15,087	$ 21,796	$ 41,535
Operating expenses	$ 26,889	$ 29,084	$ 37,505	$ 40,975
Operating income (loss)	$ (15,485)	$ (13,997)	$ (15,709)	$ 560
Net income (loss)	$ (32,693)	$ (59,359)	$ (34,245)	$ 3,686
Basic net income (loss) per share [(1)(2)]	$ (1.82)	$ (1.17)	$ (0.62)	$ 0.06
Diluted net income (loss) per share [(1)(2)]	$ (1.82)	$ (1.17)	$ (0.62)	$ 0.02

(1) Net income (loss) per share is computed independently for each quarter and the full year based upon the respective average shares outstanding in each period. Therefore, the sum of the quarterly per-share calculations may not equal the reported annual per share amounts.

(2) With the exception of the third and fourth quarter of 2019, and the fourth quarter of 2018, there is no difference in the weighted average shares used to compute basic and diluted net income (loss) per share. (see Note 2, "Summary of Significant Accounting Policies" for further details).

12. Subsequent Event

In January of 2020, the Company entered into a sub-lease agreement for approximately 30,703 square feet of general office space located on High Bluff Drive, in San Diego, California (High Bluff Lease). Subject to limited exceptions, the initial lease term is expected to commence in March 2020 and expires in March 2022. The Company currently estimates that it will recognize right-of-use leased assets and corresponding operating lease liabilities of approximately $2.4 million on the consolidated balance sheet upon the lease commencement in the first quarter of 2020. Future minimum payments due under the High Bluff Lease of approximately $2.5 million are not included in the disclosure of future minimum payments due under noncancelable operating leases as of December 31, 2019.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As of December 31, 2019, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2019.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our principal executive officer and principle financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2019, our management assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework, or 2013 Framework. Based on this assessment, our management concluded that, as of December 31, 2019, our internal control over financial reporting was effective based on those criteria.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of our internal control over financial reporting as of December 31, 2019 as stated in its report, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during our last fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitation on Effectiveness of Controls

In designing and evaluating our controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. In addition, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As discussed above, Mr. Sheridan, our principal executive officer, and Ms. Vosseller, our principal financial and accounting officer, are involved in a personal relationship and share a primary residence. While our board of directors is informed of the relationship and appropriate actions have been taken to ensure compliance with Company policies and procedures, the existence of this relationship may create additional risk, or the perception of additional risk, that our controls and procedures may not be effective.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Tandem Diabetes Care, Inc.

Opinion on Internal Control over Financial Reporting

We have audited Tandem Diabetes Care, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Tandem Diabetes Care, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 24, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

San Diego, California
February 24, 2020

Item 9B. Other Information.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Certain information regarding our executive officers and family relationships is set forth in the section of this Annual Report entitled “Business” in Part I, Item 1.

We have adopted a code of business conduct and ethics that applies to our Chief Executive Officer and other senior financial officers (our Chief Financial Officer, Vice President of Finance, Controller and other senior financial officers performing similar functions), which we refer to as the Code of Ethics (Senior Financial Officers). Our Code of Ethics (Senior Financial Officers) is designed to meet the requirements of Section 406 of Regulation S-K and the rules promulgated thereunder. We will promptly disclose on our website (i) the nature of any amendment to this Code of Ethics (Senior Financial Officers) that applies to any covered person, and (ii) the nature of any waiver, including an implicit waiver, from a provision of this Code of Ethics (Senior Financial Officers) that is granted to one of the covered persons. We have also adopted a code of business conduct and ethics that applies to all of our directors and employees, which we refer to as the Code of Ethics (Directors and Employees). The Code of Ethics (Senior Financial Officers) and the Code of Ethics (Directors and Employees) are available on our website at www.tandemdiabetes.com under the Investor Center section of the website. However, the information contained on or accessed through our website does not constitute part of this Annual Report, and references to our website address in this Annual Report are inactive textual references only.

The information required by this item that is not referenced or set forth above, will be set forth in our definitive Proxy Statement for our 2020 Annual Meeting of Stockholders, or our Proxy Statement, or in an amendment to this Annual Report, to be filed with the SEC not later than 120 days after the end of the fiscal year ended December 31, 2019, and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item will be set forth in our Proxy Statement, or in an amendment to this Annual Report, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item will be set forth in our Proxy Statement, or in an amendment to this Annual Report, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item will be set forth in our Proxy Statement, or in an amendment to this Annual Report, and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by this item will be set forth in our Proxy Statement, or in an amendment to this Annual Report, and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report:

1. *Financial Statements.* The following documents are included in Part II, Item 8 of this Annual Report and are incorporated by reference herein:

2. *Financial Statement Schedules.* Financial statement schedules have been omitted because they are not required or are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

3. *Exhibits.*

		Incorporated by Reference				
Exhibit Number	**Exhibit Description**	**Form**	**File No.**	**Date of First Filing**	**Exhibit Number**	**Provided Herewith**
3.1	Amended and Restated Certificate of Incorporation (as amended through August 17, 2018 and currently in effect)	10-Q	001-36189	1-Nov-18	3.1	
3.2	Amended and Restated Bylaws as currently in effect.	S-1/A	333-191601	1-Nov-13	3.5	
4.1	Description of Capital Stock					X
4.2	Form of Common Stock Certificate.	S-1/A	333-191601	1-Nov-13	4.1	
4.3	Third Amended and Restated Investors' Rights Agreement, dated August 30, 2012.	S-1	333-191601	7-Oct-13	4.2	
4.4	Form of Warrant to Purchase Stock.	S-1	333-216531	8-Mar-17	4.3	
4.5	Form of Preferred Stock Warrant.	S-1	333-191601	7-Oct-13	4.4	
4.6	Form of Series A Warrant to Purchase Common Stock.	8-K	001-36189	13-Oct-17	4.1	
4.7	Form of Series B Warrant to Purchase Common Stock.	8-K	001-36189	13-Oct-17	4.2	
10.1	Amended and Restated Term Loan Agreement, dated April 4, 2014, by and among Tandem Diabetes Care, Inc., Capital Royalty Partners II L.P., Capital Royalty Partners II—Parallel Fund "A" L.P., Capital Royalty Partners II (Cayman) L.P. and Capital Royalty Partners II—Parallel Fund "B" (Cayman) L.P.	10-Q	001-36189	6-May-14	10.1	

10.2	Term Loan Agreement, dated April 4, 2014, by and among Tandem Diabetes Care, Inc., Capital Royalty Partners II, L.P., Capital Royalty Partners II—Parallel Fund "A" L.P., Parallel Investment Opportunities Partners II L.P. and Capital Royalty Partners II (Cayman) L.P.	10-Q	001-36189	6-May-14	10.2
10.3	Consent and Amendment Agreement, dated June 20, 2014, by and among Tandem Diabetes Care, Inc., Capital Royalty Partners II L.P., Capital Royalty Partners II—Parallel Fund "A" L.P., Capital Royalty Partners II (Cayman) L.P., Capital Royalty Partners II—Parallel Fund "B" (Cayman) L.P. and Parallel Investment Opportunities Partners II L.P.	10-Q	001-36189	31-Jul-14	10.3
10.4	Omnibus Amendment Agreement No. 2, dated February 23, 2015, by and among Tandem Diabetes Care, Inc., Capital Royalty Partners II L.P., Capital Royalty Partners II—Parallel Fund "A" L.P., Capital Royalty Partners II (Cayman) L.P., Capital Royalty Partners II—Parallel Fund "B" (Cayman) L.P. and Parallel Investment Opportunities Partners II L.P.	10-Q	001-36189	30-Apr-15	10.1
10.5	Amendment No. 3 to Term Loan Agreement, dated January 8, 2016, by and among Tandem Diabetes Care, Inc., Capital Royalty Partners II L.P., Capital Royalty Partners II—Parallel Fund "A" L.P., Capital Royalty Partners II (Cayman) L.P., and Capital Royalty Partners II—Parallel Fund "B" (Cayman) L.P.	10-K	001-36189	24-Feb-16	10.5
10.6	Waiver and Amendment No. 4 to Term Loan Agreement, dated March 7, 2017, by and among Tandem Diabetes Care, Inc., Capital Royalty Partners II L.P., Capital Royalty Partners II—Parallel Fund "A" L.P., Capital Royalty Partners II (Cayman) L.P., and Capital Royalty Partners II—Parallel Fund "B" (Cayman) L.P.	S-1	333-216531	8-Mar-17	10.6
10.7	Waiver and Amendment No. 5 to Term Loan Agreement, dated February 5, 2018, by and among Tandem Diabetes Care, Inc., Capital Royalty Partners II L.P., Capital Royalty Partners II—Parallel Fund "A" L.P., Capital Royalty Partners II (Cayman) L.P., and Capital Royalty Partners II—Parallel Fund "B" (Cayman) L.P.	8-K	001-36189	7-Feb-18	10.1
10.8	Tandem Diabetes Care, Inc. 2006 Stock Incentive Plan.	S-1	333-191601	7-Oct-13	10.3
10.9	Form of Stock Option Agreement under 2006 Stock Incentive Plan.	S-1	333-191601	7-Oct-13	10.4
10.10	Form of Restricted Stock Purchase Agreement under 2006 Stock Incentive Plan.	S-1	333-191601	7-Oct-13	10.5

10.11	Tandem Diabetes Care, Inc. Amended and Restated 2013 Stock Incentive Plan.	DEF 14A	001-36189	26-Apr-18	Appendix B
10.12	Form of Stock Option Agreement under 2013 Stock Incentive Plan.	S-1/A	333-191601	1-Nov-13	10.7
10.13	Form of Stock Option Agreement under 2013 Stock Incentive Plan (Non-Employee Directors).	S-1/A	333-191601	1-Nov-13	10.8
10.14	Tandem Diabetes Care, Inc. Amended and Restated 2013 Employee Stock Purchase Plan.	DEF 14A	001-36189	26-Apr-18	Appendix C
10.15	Tandem Diabetes Care, Inc. 2018 Cash Bonus Plan.	10-Q	001-36189	30-Jul-18	10.4
10.16	Employee Offer Letter, dated July 8, 2013, by and between Tandem Diabetes Care, Inc. and David B. Berger.	S-1	333-191601	7-Oct-13	10.12
10.17	Employee Offer Letter, dated February 1, 2013, by and between Tandem Diabetes Care, Inc. and John F. Sheridan.	S-1	333-191601	7-Oct-13	10.13
10.18	Employee Offer Letter, dated January 12, 2016, by and between Tandem Diabetes Care, Inc. and Brian B. Hansen.	8-K	001-36189	2-Feb-16	10.1
10.19	Employment Severance Agreement, dated February 1, 2016, by and between Tandem Diabetes Care, Inc. and Brian B. Hansen.	8-K	001-36189	2-Feb-16	10.2
10.20	Amended and Restated Employment Severance Agreement, dated November 4, 2013, by and between Tandem Diabetes Care, Inc. and Kim D. Blickenstaff.	S-1/A	333-191601	8-Nov-13	10.14
10.21	2018 Compensation Agreement, effective as of January 5, 2018, by and between Tandem Diabetes Care, Inc. and Kim D. Blickenstaff.	10-Q	001-36189	30-Jul-18	10.3
10.22	Amended and Restated Employment Severance Agreement, dated November 4, 2013, by and between Tandem Diabetes Care, Inc. and John F. Sheridan.	S-1/A	333-191601	8-Nov-13	10.17
10.23	Amended and Restated Employment Severance Agreement, dated November 4, 2013, by and between Tandem Diabetes Care, Inc. and David B. Berger.	S-1/A	333-191601	8-Nov-13	10.18
10.24	Amended and Restated Employment Severance Agreement, dated November 4, 2013, by and between Tandem Diabetes Care, Inc. and Susan M. Morrison.	S-1/A	333-191601	8-Nov-13	10.19
10.25	Amended and Restated Employment Severance Agreement dated August 2, 2017, by and between the Company and Leigh A. Vosseller.	S-1	333-222553	16-Jan-18	10.25
10.26	Form of Indemnification Agreement.	S-1	333-191601	7-Oct-13	10.11

10.27	Confidential Intellectual Property Agreement, dated July 10, 2012, by and between Tandem Diabetes Care, Inc. and Smiths Medical ASD, Inc.	S-1/A	333-191601	8-Nov-13	10.20	
10.28	Amended and Restated Development and Commercialization Agreement, dated January 4, 2013, by and between Tandem Diabetes Care, Inc. and DexCom, Inc.	10-Q	001-36189	29-Oct-15	10.1	
10.29	Amendment No. 1 to Amended and Restated Development and Commercialization Agreement, dated September 24, 2015, by and between Tandem Diabetes Care, Inc. and DexCom, Inc.	10-Q	001-36189	29-Oct-15	10.2	
10.30	Development Agreement, dated June 4, 2015 by and between Tandem Diabetes Care, Inc. and Dexcom, Inc.	10-Q/A	001-36189	9-Nov-18	10.5	
10.31	Lease Agreement, dated March 7, 2012, as amended through November 5, 2013, by and between Tandem Diabetes Care, Inc. and ARE-11025/11075 Roselle Street, LLC.	S-1/A	333-191601	8-Nov-13	10.1	
10.32	Fourth Amendment to Lease, dated December 27, 2017, by and between Tandem Diabetes Care, Inc. and ARE-11025/11075 Roselle Street, LLC	8-K	001-36189	3-Jan-18	10.2	
10.33	Lease Agreement, dated November 5, 2013, by and between Tandem Diabetes Care, Inc. and ARE-11025/11075 Roselle Street, LLC.	S-1/A	333-191601	8-Nov-13	10.21	
10.34	First Amendment to Lease, dated December 27, 2017, by and between Tandem Diabetes Care, Inc. and ARE-11025/11075 Roselle Street, LLC	8-K	001-36189	3-Jan-18	10.1	
10.35	Lease Agreement, dated June 30, 2016, by and between Tandem Diabetes Care, Inc. and ARE-SD REGION NO. 36, LLC.	10-Q	001-36189	28-Jul-16	10.3	
10.36	Lease Agreement, dated November 14, 2019, by and between Tandem Diabetes Care, Inc. and Ameri Shore LLC.					X
23.1	Consent of Independent Registered Public Accounting Firm.					X
24.1	Power of Attorney (included on the signature page).					X
31.1	Certification of John F. Sheridan, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Leigh A. Vosseller, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X

32.1***	Certification of John F. Sheridan, Chief Executive Officer, pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
32.2***	Certification of Leigh A. Vosseller, Chief Financial Officer, pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101.INS	XBRL Instance Document.	X
101.SCH	XBRL Taxonomy Extension Schema Document.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	X

* Indicates management contract or compensatory plan.

** Confidential treatment has been granted with respect to certain portions of this exhibit pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted from this filing and have been filed separately with the Securities and Exchange Commission.

*** This certification is not deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Tandem Diabetes Care, Inc.

By: /s/ John F. Sheridan

John F. Sheridan
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: February 24, 2020

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints John F. Sheridan and Leigh A. Vosseller, and each of them individually, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN F. SHERIDAN John F. Sheridan	President, Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2020
/s/ LEIGH A. VOSSELLER Leigh A. Vosseller	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 24, 2020
/s/ DICK P. ALLEN Dick P. Allen	Lead Independent Director	February 24, 2020
/s/ KIM D. BLICKENSTAFF Kim D. Blickenstaff	Executive Chairman of the Board	February 24, 2020
/s/ EDWARD L. CAHILL Edward L. Cahill	Director	February 24, 2020
/s/ HOWARD E. GREENE, JR. Howard E. Greene, Jr.	Director	February 24, 2020
/s/ REBECCA ROBERTSON Rebecca Robertson	Director	February 24, 2020
/s/ DOUGLAS A. ROEDER Douglas A. Roeder	Director	February 24, 2020
/s/ CHRISTOPHER J. TWOMEY Christopher J. Twomey	Director	February 24, 2020
/s/ RICHARD VALENCIA Richard Valencia	Director	February 24, 2020

DESCRIPTION OF CAPITAL STOCK

The following is a summary of all material characteristics of the capital stock of Tandem Diabetes Care, Inc., as set forth in our Amended and Restated Certificate of Incorporation, as amended, or our Charter, and our Amended and Restated Bylaws, as amended, or our Bylaws. References to "we," "us," and "our" refer to Tandem Diabetes Care, Inc. The summary does not purport to be complete and is qualified in its entirety by reference to our Charter and Bylaws, copies of which have been filed as exhibits to our public filings with the Securities and Exchange Commission.

Common Stock

General. We may issue shares of our common stock from time to time. We are authorized to issue 200,000,000 shares of common stock, par value $0.001 per share.

Dividend Rights. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of funds legally available at the times and in the amounts that our board of directors may determine.

Voting Rights. Holders of our common stock are entitled to one vote per share. We have not provided for cumulative voting for the election of directors in our Charter. The board of directors is divided into three classes. Each director is elected for a three-year term with one class being elected at each year’s annual meeting of stockholders.

No Preemptive or Similar Rights. Our common stock is not entitled to preemptive rights, and is not subject to redemption. There are no sinking fund provisions applicable to our common stock.

Conversion. Our common stock is not convertible into any other shares of our capital stock.

Right to Receive Liquidation Distributions. Upon our liquidation, dissolution, distribution of assets or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, if any, after payment of liquidation preferences, if any, on any outstanding shares of preferred stock and payment of claims of creditors.

Preferred Stock

Pursuant to the terms of our Charter, our board of directors is authorized, subject to limitations prescribed by Delaware law, to issue up to 5,000,000 shares of preferred stock, par value $0.001 per share, in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers, preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions, in each case without further action by our stockholders. Our board of directors also can increase or decrease the number of shares of any series of preferred stock, but not below the number of shares of that series then outstanding. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in our control or the removal of management and could adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock.

The Delaware General Corporation Law, or the DGCL, provides that the holders of preferred stock will have the right to vote separately as a class on any proposed fundamental change in the rights of the preferred stock. This right is in addition to any voting rights that may be provided for in the applicable certificate of designation.

Delaware Law and Certain Charter and Bylaw Provisions

The provisions of Delaware law, as well as certain terms of our Charter and Bylaws, may have the effect of delaying, deferring or discouraging another person from acquiring control of us by means of a tender offer, a proxy contest or otherwise, or removing incumbent officers and directors. These provisions, some of which are summarized below, are expected to discourage certain types of coercive takeover practices and takeover bids that our board of directors may consider inadequate and to encourage any person seeking to acquire control of us to first negotiate with our board of directors.

Delaware Law. We are governed by the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date such stockholder became an "interested stockholder." A "business combination" includes mergers, asset sales or other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did, prior to the determination of interested stockholder status, own, 15% or more of the corporation's outstanding voting stock.

Charter and Bylaw Provisions. Our Charter and Bylaws include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our management team, including the following:

- *Issuance of Undesignated Preferred Stock.* Our board of directors will have the authority, without further action by our stockholders, to issue up to 5,000,000 shares of undesignated preferred stock with rights and preferences designated from time to time by our board of directors. Our board of directors may utilize such shares for a variety of corporate purposes. See the section entitled "*Preferred Stock*".

- *Classified Board.* Our Charter and Bylaws provide that our board is classified into three classes of directors.

- *Stockholder Action; Special Meeting of Stockholders.* Our Charter eliminates the right of stockholders to act by written consent. Our Charter further provides that special meetings of our stockholders may be called only by a majority of our board of directors.

- *Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our Charter and Bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders.

- *Amendment.* Our Charter and Bylaws provide that the affirmative vote of the holders of at least 66 2/3% of our voting stock then outstanding is required to amend certain provisions.

- *Size of Board and Vacancies.* Our Charter and Bylaws provide that the number of directors on our board of directors is fixed exclusively by our board of directors. Newly created directorships resulting from any increase in our authorized number of directors, and any vacancies resulting from death, resignation, retirement, disqualification, removal from office or other cause, will generally be filled by a majority of our board of directors then in office.

- *No Cumulative Voting.* The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless our Charter provides otherwise. Our Charter does not provide for cumulative voting.

LEASE Agreement

Between

AMERI SHORE LLC
an Idaho limited liability company

and

TANDEM DIABETES CARE, INC.
a Delaware corporation

for

1500 W. Shoreline Drive
Boise, Idaho 83702

November 14, 2019

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Exhibits:

Exhibit A Legal Description of Owner's Land
Exhibit B Graphic Depiction of the Leased Land
Exhibit C Real Property Tax Allocation Map
Exhibit D Tenant Improvement
Exhibit E Base Rent Schedule
Exhibit F Rules and Regulations

LEASE agreement

This Lease (this "**Lease**") is made and entered into by and between Owner and Tenant as of the Effective Date, and includes the "Basic Lease Terms", the "Standard Lease Terms", and all exhibits attached hereto or incorporated herein. Initially capitalized terms used in this opening paragraph and not otherwise defined herein will have the meanings set forth in the Basic Lease Terms set forth immediately below.

1. **BASIC LEASE TERMS**

This Section sets forth certain Basic Lease Terms of this Lease ("**Basic Lease Terms**"). The Basic Lease Terms are to be read in conjunction with the other provisions of this Lease; provided, however, to the extent of any inconsistency between the Basic Lease Terms and the other provisions of this Lease, the Basic Lease Terms will control. The capitalized words or phrases used in the Basic Lease Terms will constitute defined terms for purposes of this Lease.

Owner	Ameri Shore LLC, an Idaho limited liability company
Tenant	Tandem Diabetes Care, Inc., a Delaware corporation
Premises	The Premises is comprised of (a) that portion of the land legally described on Exhibit A ("**Owner's Land**") that is that is graphically depicted on Exhibit B, together with the easements, rights and appurtenances thereunto belonging or appertaining (the "**Leased Land**"); (b) the building and other improvements on the Leased Land (the "**Building**"); (c) the existing equipment which is attached to the Building in such a manner as to become fixtures under applicable law, together with all additions and accessions thereto, substitutions therefor and replacements thereof permitted by this Lease; and (d) at least four hundred fifty-three (453) parking spaces as identified in Tenant's parking area on Exhibit B, subject to relocation and reconfiguration from time-to-time as provided in Section 5 (the "**Parking Area**").
Rentable Area (of Premises)	Approximately 94,562 square feet
Address of Premises	1500 W. Shoreline Drive Boise, Idaho 83702
Permitted Use	Subject to the Legal Requirements and the provisions of this Lease, Tenant may use the Premises solely for general office and call center uses, and no other uses without Owner's prior consent pursuant to Section 8.1.
Initial Term	Seven (7) Lease Years from the Term Commencement Date.
Renewal Term(s)	One (1) Renewal Term of three (3) Lease Years.
Term	The Initial Term and Renewal Term, if any, collectively.
Effective Date	The date that this Lease is signed by Owner and Tenant. The parties are bound by all terms, covenants and obligations under this Lease as of the Effective Date.
Delivery Date	January 1, 2020
Term Commencement Date	The earlier to occur of (a) the date of Tenant's substantial completion of the Tenant Improvements (as evidenced by the issuance of a certificate of occupancy for the Premises with the Tenant Improvements); (b) the date Tenant uses any part of the Premises for the Permitted Use; or (c) July 1, 2020.
Rent Commencement Date	The Term Commencement Date.
Security Deposit	None.
Base Rent	$90,621.92 (per month). The Base Rent is calculated at $11.50 per square foot per year of Rentable Area (i.e., the agreed measurement of 94,562 square feet of Rentable Area x $11.50 per square foot per year = $1,087,463 per year, and $90,621.92 per month).

Base Rent Increases	Commencing at the beginning of the second Lease Year, and continuing at the beginning of each Lease Year of the Initial Term thereafter, the Base Rent will increase by an amount equal to the product of multiplying the Base Rent for the immediately prior Lease Year by two and one-half percent (2.5%). The schedule of the Base Rent over the Term is set forth on Exhibit E.
Operating Expenses	All operating expenses related to the Premises are to be paid by Tenant as provided in this Lease.
Owner's Work	Prior to the Term Commencement Date, Owner will (a) patch/paint the exterior of the Building on the Premises; (b) perform any necessary repairs to the roof of the Building such that it is watertight; (c) perform any necessary maintenance or repairs to the rooftop HVAC units serving the Building so they are in good order and repair; and (d) re-seal and restripe the Parking Area. Owner will use commercially reasonable efforts to complete Owner's Work by April 30, 2020.
Tenant Improvements	The improvements of the Premises as set forth in Exhibit D.
TI Allowance	$945,620 (i.e., the agreed measurement of 94,562 square feet of Rentable Area x $10.00 per square foot).
Tenant's Work	Performance of the Tenant Improvements, plus the procurement and installation of any furniture, fixtures, equipment, data/telecom cabling, security systems and other matters that may be desired by Tenant.
Brokers	For Owner: Thornton Oliver Keller For Tenant: RE:Align Tenant Strategies
Notice and Rent Addresses	Owner's Address for Notices and Payment of Rent: c/o River Shore Development 1555 W. Shoreline Drive, Suite 120 Boise, Idaho 83702 Tenant's Address for Notices: 11075 Roselle Street San Diego, California 92121
Exhibits	The following Exhibits are part of this Lease: Exhibit A - Legal Description of Owner's Land Exhibit B - Graphic Depiction of the Leased Land Exhibit C - Real Property Tax Allocation Map Exhibit D - Tenant Improvement Exhibit E - Base Rent Schedule Exhibit F - Rules and Regulations

STANDARD LEASE TERMS

Owner hereby leases the Premises to Tenant, and Tenant hereby takes and leases the Premises from Owner, upon and subject to the terms and conditions hereof.

2. CERTAIN DEFINITIONS

"**Additional Rent**" means all amounts, costs, expenses, liabilities and obligations which Tenant is required to pay pursuant to the terms of this Lease other than Base Rent.

"**Alterations**" means any or all changes, additions, expansions, improvements, reconstructions, removals or replacements of any of the Premises, both interior or exterior, and ordinary and extraordinary, including the Tenant Improvements.

"**Bankruptcy Code**" has the meaning in Section 25.8.2.

"**Condemnation**" means (a) any taking of the Premises in or by condemnation or other eminent domain proceedings pursuant to any law, general or special, or by reason of any agreement with any condemnor in settlement of or under threat of any condemnation or other eminent domain proceedings or by any other means, or any de facto condemnation; or (b) any temporary condemnation or confiscation of the use or occupancy of the Premises by any governmental authority, civil or military, whether pursuant to an agreement with the governmental authority in settlement of or under threat of any requisition or confiscation, or otherwise.

"**Curable Default**" has the meaning in Section 25.1.

"**Default Interest**" has the meaning in Section 10.4.

"**Event of Default**" has the meaning in Section 25.1.

"**Financial Distress Default**" (Voluntary and Involuntary) have the meanings in Section 25.8.1.

"**Hazardous Materials**" has the meaning in Section 30.2.

"**Impositions**" means all expenses payable by Owner directly applicable to the Premises other than Taxes, including (a) all charges and/or taxes for any easement or agreement maintained for the benefit of the Premises, and (b) all water, sewer, trash, power, gas, communications and other utility or service charges on or with respect to Premises.

"**Insurance Requirements**" means, as the case may be, any one or more of the terms of each insurance policy required to be carried by Owner or Tenant under this Lease and the requirements of the issuer of the policy. Whenever Tenant is engaged in making any Alterations, repairs or construction work of any kind, the term Insurance Requirements will be deemed to include a requirement that Tenant obtain or cause its contractor to obtain completed value builder's risk insurance on the full replacement cost basis and that Tenant or its contractor will obtain commercial general liability, automobile, worker's compensation insurance or other adequate insurance coverage covering all persons employed in connection therewith, whether by Tenant, its contractors or subcontractors and with respect to whom death or bodily injury claims could be asserted against Owner.

"**Late Charge**" has the meaning in Section 10.4.

"**Lease Year**" means each period of twelve full calendar months following the Term Commencement Date, plus in the case of the first Lease Year, any partial calendar month at the beginning of the Term.

"**Legal Requirements**" means, as the case may be, any one or more of all present and future laws, codes, ordinances, orders, judgments, decrees, injunctions, rules, regulations and requirements, even if unforeseen or extraordinary, of every duly constituted governmental authority or agency (but excluding those which by their terms (i) are not applicable to and do not impose any obligation on Tenant, Owner or the Premises, or (ii) do not mandate compliance other than on a voluntary basis) and all covenants, restrictions and conditions of record against title to the Premises as of the Effective Date which may be applicable to Tenant, Owner (with respect to the Premises) or to all or any part of or interest in Premises, or to the use, manner of use, occupancy, possession, operation, maintenance, alteration, repair or reconstruction of the Premises by Tenant, even if compliance therewith (i) necessitates structural changes or improvements (including changes required to comply with the Americans with Disabilities Act or Idaho Human Rights Act) or results in interference with the use or enjoyment of the Premises or (ii) requires Tenant to carry insurance other than as required by the provisions of this Lease.

"**Lender**" means an entity identified as such in writing to Tenant which makes a loan to Owner, secured by a Mortgage, or which is the holder of the Mortgage as a result of an assignment thereof.

"**Loan**" means a loan made by a Lender to Owner secured by a Mortgage.

"**Mortgage**" means a first priority mortgage or similar security instrument hereafter executed covering the Premises from Owner to Lender.

"**Owner Parties**" means Owner, and, as to each such Owner, the Owner's (i) shareholders, members, partners or other owners, (ii) affiliates and subsidiaries, (iii) directors, officers, employees, former employees, agents, contractors, property manager and Lenders; and (iv) successors and assigns.

"**Owner Insurance**" has the meaning in Section 17.

"**Permitted Encumbrances**" means all real property taxes and assessments assessed against the Premises that are not delinquent, and all matters of record or appearing from a careful inspection of the Leased Land as of the Effective Date. Tenant acknowledges that the Leased Land is not a separate and independent tax parcel from Owner's other lands ("**Owner's Other Lands**"), and that the Taxes assessed against the Premises each year will include Taxes related to Owner's Other Lands which will not be Tenant's responsibility under this Lease.

"**Permitted Transferee**" has the meaning in Section 20.1.

"**Petition**" has the meaning in Section 25.8.2.

"**Renewal Notice**" has the meaning in Section 9.3.1.

"**Rent**" means Base Rent and Additional Rent.

"**Structural Repairs**" has the meaning in Section 12.1.

"**Taxes**" means all taxes (including real, ad valorem, personal property, gross income, franchise, withholding, profits and gross receipts taxes) directly applicable to the Premises; all general and special assessments, levies, permits, inspection and license fees on or with respect to the Premises; and all other public charges and/or taxes whether of a like or different nature, even if unforeseen or extraordinary, imposed or assessed upon or with respect to the Premises, during the Term, against Owner, Tenant or any of the Premises as a result of or arising in respect to the occupancy, leasing, use, maintenance, operation, repair or possession thereof, or any activity conducted on the Premises by Tenant, or the Base Rent or Additional Rent, including without limitation, any gross income tax, sales tax, occupancy tax or excise tax levied by any governmental body on or with respect to the Base Rent or Additional Rent. Taxes include any tax on the Base Rent, Additional Rent or other amounts payable by Tenant to Owner under this Lease (other than taxes on Owner's net income). Nothing herein will obligate Tenant to pay, and the term "Taxes" will exclude, federal, state or local (a) transfer taxes as the result of a conveyance by (or suffered by) Owner, (b) franchise, capital stock or similar taxes if any, of Owner, (c) income, excess profits or other taxes, if any, of Owner, determined on the basis of or measured by its net income, (d) any estate, inheritance, succession, gift, capital levy or similar taxes, unless the taxes referred to in clauses (b) and (c) above are in lieu of or a substitute for any other tax or assessment upon or with respect to any of the Premises which, if the other tax or assessment were in effect at the commencement of the Term, would be payable by Owner; or (e) any Taxes that relate to Owner's Other Lands. Owner and Tenant acknowledge that the bulk of the Premises is located on Ada County Assessor's Parcel No. S100911064 ("1500 W. Shoreline Dr."), but that +/- 19,738.72 sq. ft. of the Leased Land is located on Ada County Assessor's Parcel No. S1009111068 ("688 S. Americana Blvd.") and +/- 13,838.51 sq. ft. of the North Parking Area located on 1500 W. Shoreline Dr., all as depicted on the map attached hereto as Exhibit C. Owner and Tenant agree that Taxes will (a) include the real property taxes assessed against +/- 19,738.72 sq. ft. of the land portion (i.e., commonly called "Com Lot or Tract" and "Com Lot or Tract Ur Incr") of 688 S. American Blvd.; and (b) exclude the real property taxes assessed against +/- 13,838.51 sq. ft. of the land portion of 1500 W. Shoreline Dr. To illustrate the foregoing using the 2019 assessments and 2019 levy rate (i.e., 1.3568784%) by the Ada County Assessor, the Taxes will include the portion of the taxes assessed against 27.46% of the land portion ($934,400 - 2019 assessed land value) of 688 S. Americana Blvd. (which is $256,586.24) and exclude the portion of the taxes assessed against 4.93% of the land portion ($3,282,200 - 2019 assessed land value) of 1500 W. Shoreline Dr, (which is $161,812.40), for a net $94,773.84 increase in the assessed value of the Premises (over the assessed value of 1500 W. Shoreline Dr.), and a net increase of $1,285.97 in taxes for calendar year 2019 (over the assessed value of 1500 W. Shoreline Dr.). "Taxes" also include 'occupancy roll' assessments, if any, resulting from the Tenant Improvements on the Premises, but not any other improvements by Owner that are not part of the Premises.

"**Tenant Parties**" means Tenant, and Tenant's (i) shareholders, members, partners or other owners, (ii) affiliates and subsidiaries, (iii) directors, officers, employees, former employees, sublessees, licensees, concessionaires, invitees, customers, agents, contractors and mortgagees, and (iv) successors and assigns.

"**Tenant's Insurance**" has the meaning in Section 18.

"**Tenant's Property**" means all fixtures, equipment, signs and other items of personal property (whether or not attached to the Building) which are owned or leased by Tenant and located or used on the Premises, including data wires and cables, furniture, fixtures, equipment, inventory and other personal property.

"**Tenant Improvements**" has the meaning in Exhibit D.

"**TII Estimates**" is as defined in Section 10.3.

"**Transfer**" has the meaning in Section 20.1.

"**Transferee**" has the meaning in Section 20.1.

3. LEASE OF PREMISES

From and after the Term Commencement Date, the Premises are exclusively leased to Tenant subject to the Permitted Encumbrances, Legal Requirements, Insurance Requirements and the condition of the Premises as of the commencement of the Term; without representation or warranty by Owner except as specifically provided in this Lease. Tenant acknowledges and agrees that Tenant has been given an adequate opportunity to examine the status of title to the Premises, and Tenant has made all examinations desired by Tenant, prior to the execution and delivery of this Lease, and Tenant has found Owner's title to be satisfactory for Tenant's purposes as contemplated by this Lease. Owner and Tenant agrees that, for all purposes of this Lease, the Premises is comprised of the amount of Rentable Area identified in Section 1.4, even if Owner or Tenant may calculate a different Rentable Area. Tenant will have access to the Premises twenty-four (24) hours a day, three hundred sixty-five (365) days a year.

4. CONDITION OF PREMISES

Except for Owner's Work, Owner leases and Tenant will take the Premises in its then "as is" condition. Tenant acknowledges that Owner has not made and will not make, nor will owner be deemed to have made, any warranty or representation, express or implied, with respect to any of the Premises except as expressly provided in this Lease, including any warranty or representation as to its fitness for use or purpose, design or condition for any particular use or purpose, merchantability, quality, description, durability or operation. Tenant acknowledges that Tenant has been given the opportunity to inspect the Premises prior to performance of Owner's Work, and Tenant acknowledges that Tenant is satisfied with the Premises (subject to Owner's performance of Owner's Work). In the event of any defect or deficiency in any of the Premises of any nature, whether patent or latent, Owner will not have any responsibility or liability with respect thereto, or for any incidental or consequential damages related thereto. The provisions of this Section 4 have been negotiated, and the foregoing provisions are intended to be a complete exclusion and negation of any warranties by Owner, express or implied, with respect to any of the Premises, arising pursuant to any law now or hereafter in effect or otherwise.

5. PARKING AREA

The Parking Area is graphically illustrated on Exhibit B, attached hereto. Owner may relocate or reconfigure the Parking Area from time-to-time upon not less than sixty (60) days' prior notice to Tenant provided that (a) at least as many spaces remain available for Tenant's exclusive use as are identified in Section 1.3 of the Basic Lease Terms; (b) the Parking Area remains within the boundaries of Owner's Land and any relocation of Tenant's parking spaces shall be restricted to the North Parking Area (as defined in Exhibit B); (c) the employee and patron parking in the Parking Areas is within the maximum distances to the Building as allowed by the applicable Legal Requirement; (d) legally sufficient parking for disabled persons is provided in close proximity to each public entrance to the Building (as applicable); (e) the location and configuration of the Parking Area does not unreasonably and adversely impact Tenant's and Tenant's employees' access to the Building relative to the access provided to Tenant absent such relocation by Owner. Subject to the foregoing, Owner, in its reasonable discretion, reserves the right, from time to time, to (i) establish a parking management plan and/or promulgate rules and regulations relating to the use of the Parking Areas in conjunction with the other parking area on Owner's Land and Owner's nearby lands; (ii) designate spaces for certain uses (so long as the use designations do not unreasonably and adversely impact Tenant's and Tenant's employees' access to the Building relative to the access provided to Tenant absent such designation by Owner); (iii) so long as the following does not unreasonably and adversely impact Tenant's and Tenant's employees' access to the Building, change the shape, layout, size, location, and number

of spaces (provided any legal or contractual minimums are maintained); and (iv) remove and cause to be removed any personal property or vehicles parked in the Parking Area in violation of the requirements of this Lease or the rules and regulations promulgated by Owner. Tenant agrees that Owner may relocate up to 167 parking spaces from the eastern portion of the Parking Area to the North Parking Area if Owner deems is necessary to provide parking for users of a new development east of the Premises; provided, however, in exercising the right of relocation of such (up to) 167 spaces: (1) Owner will relocate parking in reasonable blocks of adjacent parking spaces (both in the 'relocate from' area and the 'relocate to' area); (2) Owner covenants not to engage in material construction staging activities in the portion of the Premises made available by the relocated parking; (3) Tenant's parking areas will continue to have access to Spa Street for ingress-egress; (4) the parking spaces in the 'relocate to' areas must be roughly equivalent (or better) than the 'relocate from' areas in size and condition; and (5) Tenant will not have any maintenance, repair or replacement obligations with respect to 'relocate from' areas, but will accept maintenance, repair and replacement obligations with respect to the 'relocate to" areas (provided that if Owner has not re-sealed and restriped the 'relocate to' portions of the North Parking Area since the Effective Date, then Owner will re-seal and restripe the 'relocate to' portion in a manner equivalent to that required for Owner's Work).

6. OWNER'S OTHER LANDS

1. **Redevelopment of North Parking Area**

Tenant acknowledges that Owner may redevelop some or all of the North Parking Area during the term of this Lease. Tenant acknowledges that Owner has made no promises to Tenant of any kind with respect to any future development, use or occupancy of any of the North Parking Area. Tenant agrees that any lawful development, use and occupancy of any of the North Parking Area will not constitute interference with any of Tenant's rights under the Lease unless such development, use or occupancy violates the terms of this Lease; provided, however, if Owner relocates Tenant's parking spaces to the North Parking Area pursuant to Section 5, then Owner agrees that its development, use and occupancy of the North Parking Area will not unreasonably interfere with Tenant's access to, and use of, the relocated parking spaces, and Tenant will be entitled to use the existing access easements to Americana Blvd. for ingress and egress for Tenant's parking.

2. **Construction Activity in the North Parking Area**

If Owner commences construction activities in the North Parking Area, Owner will communicate with Tenant from time-to-time regarding the scope and schedule for the construction activities (which communications may include sending copies public notices for entitlement or development as required by law), and Owner will use commercially reasonable efforts to limit unreasonable interference with Tenant's rights under the Lease (e.g., disruption of reasonable access to the Premises by construction vehicles and equipment); provided, however, nothing herein will obligate Owner to place any restrictions or limits on Owner's development, construction or other activities unless such activities are otherwise prohibited by applicable law or the terms of this Lease. Further, provided that Owner does not relocate any of Tenant's parking to the North Parking Area, if Owner elects to conduct construction activities on the North Parking Area, Owner agrees that Owner will undertake the following restrictions unless Tenant agrees to alternative limitations (a) Owner will limit construction vehicle access and construction personal access to the two access points located off of Americana Blvd.; and (b) Owner will install a construction fence between the Premises and the area of such construction activities. Tenant agrees that, during the period of construction activities on the North Parking Area, Owner may limit or prohibit use of the two access points off of Americana Blvd. by Tenant Parties, and may place appropriate barriers off of the Premises to enforce such access limitation.

3. **Other Lands**

. Tenant acknowledges that other lands in the area of the Premises and the North Parking Area (including lands that may be owned, acquired or sold by Owner or its affiliates from time-to-time) may be subject to redevelopment. Tenant acknowledges that Owner has made no promises to Tenant of any kind with respect to any future development, use or occupancy of such other lands, and that any lawful development, use and occupancy of such other lands by Owner or its affiliates will not constitute a breach or default of Owner's obligations to Tenant under this Lease. If Tenant believes the development, use and occupancy of such other lands are interfering with Tenant's rights, then Tenant may exercise its legal rights and remedies against the persons or entities causing the interference.

4. **North Parking Area Parking Lot Lights and Landscaping**

. Owner will maintain the portion of the landscaping areas adjacent to the North Parking Area. Tenant acknowledges that the parking lot lights in the North Parking Area are controlled, and receive power from, the electrical system on the Premises. Further, Tenant acknowledges that the landscaping on (and in the right-of-way adjacent to) the North Parking Area are controlled by, and receive water from, the control system and water supply system on the Premises. Tenant agrees to cooperate with Owner to allow Owner to continue to use the existing systems for the parking lot lights and irrigation system for the North Parking Area. Tenant may invoice Owner for the usage fees paid (and costs of maintenance, repair and replacement) by Tenant for electricity

used by Owner for such parking lot lights and the usage fees paid by Tenant of irrigation water used by Owner for such landscaping; provided, however, Tenant may not invoice Owner during any period that Tenant allows its employees and guests to use the North Parking Area for parking (unless relocated pursuant to Section 5), but only to the extent of Tenant's use.

7. TENANT IMPROVEMENTS

1. **Design and Construction of Tenant Improvements**

. Tenant, at Tenant's sole expense (other than Owner's payment of the TI Allowance as set forth in Section) will design and construct the Tenant Improvements as set forth in Exhibit D.

2. **Payment of TI Allowance**

. Tenant will invoice Owner for the TI Allowance after Tenant achieves the Term Commencement Date. Tenant's invoice must be accompanied by evidence reasonably satisfactory to Owner that all costs associated with the Tenant Improvements have been paid, which reasonable evidences may be executed final lien waivers from all contractors, labors, materialmen, equipment providers, and any other person that would have a right to claim a lien against the Premises on account of the Tenant Improvements. Owner will pay the TI Allowance to Tenant within fifteen (15) days after Owner's receipt of Tenant's invoice.

8. USE OF PREMISES

1. **Permitted Use**

. Tenant may use the Premises only for the Permitted Use; provided, however, in no event will Tenant allow the Premises to be used for any purpose that violates this Lease, the Legal Requirements or any Permitted Encumbrance. Tenant may use the Premises for other office or service uses that are generally consistent with the Permitted Use only with Owner's prior approval, which approval will not be unreasonably withheld, conditioned or delayed as long as the other office or service use is consistent with the terms of this Lease. Tenant agrees that it would be reasonable for Owner to withhold or condition its consent to any residential, industrial, retail or restaurant use. Tenant agrees that with respect to the Permitted Encumbrances, Tenant will observe, perform and comply with and carry out the provisions thereof required therein to be observed and performed solely with respect to the Premises or Tenant's use and occupancy of the Premises. Subject to Tenant's rights under Section 24 hereof, (i) Tenant will not permit any unlawful occupation, business or trade to be conducted on the Premises or any use to be made thereof contrary to applicable Legal Requirements or Insurance Requirements; and (ii) Tenant will not use, occupy or permit any of the Premises to be used or occupied, nor do or permit anything to be done in or on the Premises, in a manner which would (1) make void or voidable any insurance which Owner is required hereunder to maintain then in force with respect to any of the Premises, (2) affect the ability of Owner to obtain any insurance which Tenant is required to furnish hereunder, or (3) cause any injury or damage to the Building, unless pursuant to Alterations permitted under Section 13 hereof; provided that Owner hereby confirms that Tenant's use of the Premises for the Permitted Use (i.e., general office and call center uses) is not in violation of the restrictions set forth in Section (1) through (3) hereof.

2. **Use Restriction**

. Tenant and Owner each covenant that it will not use any part of the Premises, nor permit any part of the Premises to be used (a) as an outpatient surgery center; (b) for any medical office or medial administration (except if expressly authorized in each instance by Owner); (c) in violation of the Declaration of Covenants recorded in the real property records of Ada County as Instrument No. 2018-069818; (d) any shelter or residence for any person(s), including any form of homeless shelter, day shelter or similar operation (or any operation that involves persons residing or sleeping at the Premises); or (e) any soup kitchen, food kitchen, food warehouse or other use where food (whether unprepared or ready-to-eat) is supplied to people for free or for a nominal cost; provided however, this provision will not prohibit the supply of food without cost if incidental to an otherwise Permitted Use or to any school lunch program or similar program related to the supply of food to minors.

3. **Legal and Insurance Requirements**

. Subject to Section 24, Tenant will timely comply with and conform to all of the Legal Requirements and Insurance Requirements which are Tenant's responsibility under this Lease.

4. **Quiet Enjoyment**

. Subject to all of the provisions of this Lease, so long as no Event of Default exists hereunder, Owner covenants to Tenant that Owner will not disturb, nor permit others acting through Owner or others with the permission of Owner to disturb, Tenant's peaceful and quiet occupation and enjoyment of the Premises.

5. **Rules and Regulations**

. Tenant will comply with the rules and regulations established by Owner, from time to time, for the Premises. The current rules and regulations are attached as Exhibit F. Owner will have the right to amend the rules and regulations from time to time, which amendments will not be effective until reasonable notice to Tenant. Any amendments to the rules and regulations must be reasonable, non-discriminatory, and not deprive Tenant of any of the material benefits and rights provided in this Lease.

9. TERM

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1. **Delivery Date**

. The parties agree that this is a fully binding and enforceable agreement from and after the Effective Date, notwithstanding that the Delivery Date, Term Commencement Date and Rent Commencement Date will occur in the future. Tenant's right to occupy the Premises for the design and construction of the Tenant Improvements (but not for the Permitted Use or any business operations) will commence on the Delivery Date; provided, however, Tenant may request that Owner grant early occupancy to Tenant for design and evaluation purposes (but not construction purposes) in any manner that is not inconsistent with Owner's commitments to any other occupant of the Premises, and Owner agrees not to unreasonably refuse any such request. Owner hereby confirms for the benefit of Tenant that no occupancy by any occupant of the Premises will extend beyond December 31, 2019 and, if any occupant holds over in the Premises beyond such date, Owner shall promptly and diligently commence and prosecute to completion the eviction of such occupant(s) at Owner's sole cost and expense. If any occupant damages the Premises or otherwise vacates its space and leaves it in a condition different than contemplated under this Lease, Owner will be responsible for the restoration of the damage or vacated space to the proper condition contemplated under this Lease.

2. **Initial Term**

. Tenant will have and hold the Premises for an initial term commencing on the Term Commencement Date and ending at the expiration of the Initial Term. When the Term Commencement Date has occurred, Owner will prepare and Tenant will sign a factually correct acknowledgement of the Term Commencement Date. Any failure by Tenant to either promptly object to the contents of such acknowledgement, or to promptly sign and return the acknowledgement, will be deemed agreement with its contents.

3. **Renewal Term(s)**

. Tenant will have the right to exercise the Renewal Term(s), provided Tenant satisfies each of the requirements set forth in this Section 9.3. Each Renewal Term(s) will commence at the day following the last day of the Lease Year for the then current Term. Base Rent for each Lease Year during the Renewal Term will be determined pursuant to the Basic Lease Terms. Tenant's failure to exercise the Renewal Term in the manner required herein will terminate Tenant's right to all Renewal Term(s). Tenant will satisfy each of the following requirements as a condition of exercising any Renewal Term:

1. Tenant must submit a written notice to exercise the Renewal Term to Owner not less than one (1) year prior to the expiration of the then current Term ("**Renewal Notice**");
2. The Lease must be in full force and effect as of the date of the Renewal Notice and must continue thereafter until the commencement of the Renewal Term;
3. An Event of Default shall not exist at delivery of the Renewal Notice or at the commencement of the Renewal Term; and

4. Tenant must not have subleased the entirety of its interest in the Premises, except pursuant to a Permitted Transfer.

10. BASE RENT

1. **Base Rent**

. Tenant will pay the Base Rent to Owner as minimum rent for the Premises during the Term, commencing on the Rent Commencement Date and thereafter on the first day of each month during the Term, and will pay the same by bank or wire transfer to Owner or, at Tenant's option, by check at Owner's address set forth in the Basic Lease Terms, or at any other place as Owner from time to time may designate to Tenant in writing by not less than sixty (60) days' prior notice.

2. **Base Rent Increases**

. Base Rent will be increased on the first day of each Lease Year in the amounts stated in the Basic Lease Terms.

3. **Taxes, Impositions and Insurance Estimates**

. Commencing on the Rent Commencement Date, Tenant will pay to Owner each month one-twelfth ($1/12^{th}$) of the amount of Owner's estimate of the cost of Taxes, Impositions and Owner's Insurance ("**TII Estimates**"). Within sixty (60) days after the end of each calendar year, Owner will provide Tenant with a line item reconciliation statement ("**Reconciliation Statement**") stating: (i) the total amount actually paid by Tenant for the TII Estimates for the prior calendar year, (ii) the actual amount of the Taxes, Impositions and Owner's Insurance (with supporting documentation) for the prior calendar year, (iii) a statement of the amount of Taxes, Impositions or Owner's Insurance overpaid or underpaid by Tenant, and (iv) a statement of the amount of the TII Estimates for the current year. Subject only to Tenant's audit rights in Section 10.9, Tenant will pay any underpayment within thirty (30) days after receipt of the annual statement together with substantiating backup documentation. Any overpayment or unapplied TII Estimates will be returned to Tenant concurrently with Owner's delivery of the annual statement, or for the final Lease Year, within sixty (60) days after the expiration or termination of this Lease.

4. **Late Charges; Default Interest**

. If Owner does not receive any monthly installment of Base Rent or TII Estimates due and payable under this Lease within five (5) business days after its due date, and such failure is the second (2^{nd}) or more frequent occurrence in any 12-month period during the Term, then Tenant will pay to Owner a one-time late charge equal to the greater of $250 or two percent (2%) of the overdue amount as liquidated damages for Owner's extra expense and handling of past due accounts ("**Late Charge**"). Further, and in addition to any Late Charge, any Rent past due for a period of thirty (30) or more days will bear interest from the due date at the rate of twelve percent (12%) per annum ("**Default Interest**") until cured in full. Acceptance of a Late Charge and/or Default Interest will not constitute a waiver of Tenant's default with respect to the overdue amount nor prevent Owner from exercising any other rights or remedies granted hereunder. No payment by Tenant of an amount less than that due will be construed other than as a partial payment nor will any endorsement or statement on the check or letter accompanying the payment be deemed to create accord and satisfaction.

5. **No Deductions**

. This Lease is the absolute and unconditional obligation of Tenant. Except as expressly set forth otherwise in this Lease, all Rent must be paid in United States dollars without notice, demand, setoff, counterclaim, recoupment, abatement, suspension, deferment, diminution, deduction, reduction or defense.

6. **No Accord and Satisfaction**

No payment by Tenant or receipt by Owner of a lesser amount than the Rent due will be deemed to be other than on account of the earliest Rent, nor will any restrictive or qualifying endorsement or statement on any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Owner may accept the check or payment of Rent without prejudice to Owner's rights to recover the balance of the Rent or pursue any other remedy under this Lease, and will not constitute a waiver by Owner of any rights, nor will it reinstate this Lease or cure a default on the part of Tenant.

7. Net Lease

. This is an absolute net lease. From and after the Term Commencement Date, in addition to Base Rent, Tenant will be responsible for all Taxes, Impositions and Owner's Insurance, and as well as all operating, use, utilities, services, maintenance, repair, replacement and other costs attributable to the Premises of any kind whatsoever, except as expressly provided otherwise under this Lease. Owner will not be responsible for any costs or expenses in connection with the Premises arising after the Term Commencement Date, except as expressly provided in this Lease.

8. **Additional Rent**

. As Additional Rent, Tenant will pay (before any fine, lien, interest or penalty may be added thereto for late payment thereof) all other amounts and obligations which Tenant assumes or agrees to pay pursuant to this Lease, together with every fine, penalty, interest and cost which may be added by the party to whom the payment is due for nonpayment or late payment thereof as a result of Tenant's non-performance thereof. If Tenant fails to pay any Additional Rent when due and payable, and such failure remains after five (5) business days' notice from Owner, Owner will have all rights, powers and remedies provided herein, by law or otherwise, as would apply in the event of nonpayment of Base Rent.

9. **Audit Rights**

. In the event of a dispute as to any Reconciliation Statement, Tenant will have the right, after reasonable notice, to inspect to inspect Owner's accounting records at reasonable times. If, after such inspection, Tenant still disputes such Reconciliation Statement, upon Tenant's request therefor, a certification as to the proper amounts due under such of Reconciliation Statement and the amount due to or payable by Tenant shall be made by an independent (i.e. not utilized by either party within the past three (3) years) certified public accountant mutually agreed to by Owner and Tenant. If Owner and Tenant cannot mutually agree to an independent certified public accountant, then each party shall select an independent certified public accountant, who then shall jointly select a third independent certified public accountant (failing which agreement either party may seek a judicial determination of such independent certified public accountant). Each of the three (3) independent certified public accountants shall, within forty-five (45) days after selection make a good faith determination of the amounts properly incurred and due under such Reconciliation Statement and any amounts then due, and shall notify Owner, Tenant, and each other independent certified public accountant of such determinations. If all independent certified public accountants do not agree on of the amounts properly incurred and due under the Reconciliation Statement for the period in dispute, the common decision of two (2) of them shall be determinative. If two (2) of the three (3) independent certified public accountant are unable to so agree, the determination that is neither the highest nor lowest of the three (3) determinations shall be final determination of the amounts properly incurred and due under such Reconciliation Statement for period in dispute. Such certification shall be final and conclusive as to all parties. If the certification reflects that Tenant has overpaid amounts due under final Reconciliation Statement for the period in question, then Owner shall promptly refund such excess to Tenant and conversely, if Tenant has underpaid amounts due from Tenant thereunder, Tenant shall promptly pay such additional amounts to Owner. Each party shall be responsible for the cost of its independent certified public accountant and the parties shall share in the costs of any jointly appointed independent certified public accountant.

10. **Exclusions**

. Amounts due from Tenant to Owner under this Lease will not include any expenses as to which Owner is reimbursed by any third party, any other tenant, or by the proceeds of any insurance procured by Owner pursuant to this Lease. The following shall also constitute exclusions therefrom:

A. costs (including costs of construction, costs to relocate any occupant or user, and permit, license and inspection fees) incurred in the exercise of any reserved rights of Owner under Section 5 or Section 6 of this Lease;

B. Owner's costs of any services sold to any users of Owner's Land or the Parking Area (other than Tenant) for which Owner is entitled to be reimbursed by such user;

C. costs of Owner's Work, including costs to correct any deficiencies therein or with respect thereto and all amounts due for Code Upgrades (as defined below) which are Owner's responsibility under Section D.5.4.2 of Exhibit D;

D. any depreciation or amortization of the Premises, except as expressly permitted herein;

E. costs incurred due to a violation of Legal Requirements by Owner or any Owner Parties relating to the Premises;

F. interest on debt or amortization payments on any mortgages or deeds of trust or any other debt for borrowed money;

G. repairs or other work occasioned by fire, flood, windstorm or other work, but only to the extent the cost of such repairs or other work is paid by through insurance or condemnation proceeds (excluding any deductible);

H. legal expenses incurred for (i) negotiating this Lease; (ii) negotiating any other lease of the Premises to any other prospective tenants (except if such negotiation relates to a replacement tenant for any default of Tenant), or (iii) the development and/or construction of the Premises;

I. costs of items considered capital improvements, capital repairs or capital expenditures under GAAP, except as permitted in Section 12.1 of this Lease for Structural Repairs (as all other capital improvements, capital repairs or capital expenditures are Tenant's obligations under this Lease);

J. costs and expenses incurred with respect to the removal of Hazardous Materials (defined below) or any other hazardous substances not attributable to Tenant Parties; provided, however, Tenant acknowledges that Owner has no obligation to remove of Hazardous Materials or any other hazardous substances that was not brought to the Premises by Owner Parties;

K. costs to the extent arising from the gross negligence or willful misconduct of Owner or Owner Parties (including Owner's failure to maintain the insurance it is required to maintain under this Lease);

L. costs related to the operation of the business of the entity which constitutes Owner as the same are distinguished from the costs of operating the Premises;

M. any excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes applied or measured by Owner's general or net income (as opposed to rents, receipts, or income directly attributable to operation of the Premises); and

N. any costs expressly excluded, or expressly made the sole responsibility of Owner and not subject to reimbursement, elsewhere in this Lease.

11. SIGNS

. Subject to the Legal Requirements, and further subject to Tenant obtaining Owner's approval of the drawings, dimensions, design and location of each sign, Tenant, at its cost, will have the right to install and maintain signs on the exterior of the Building and a sign on each monument sign for the Premises (if any). All signage will be maintained in a condition commensurate with local industry customs and standards and be approved by Owner in writing. No other signs will be permitted on the Premises without Owner's consent.

12. MAINTENANCE AND REPAIR

1. **Structural Repairs**

. Throughout the Term, Owner will be responsible for performing any capital repairs and replacements of the Building structure, roof structure, roof membrane and major rooftop HVAC equipment as they exist on the Effective Date of this Lease, except to the extent caused by Tenant Improvements, Alterations, or, to the extent not covered by insurance required to be maintained under this Lease, Tenant's negligent or wrongful act ("**Structural Repairs**"); provided, however, the all costs incurred by Owner for the Structural Repairs will be amortized over the useful life of the Structural Repair (as reasonably determined by Owner in accordance with GAAP), and, subject to amounts recovered under insurance required to be maintained under this Lease, or under warranties, indemnities or guarantees from third party vendors or contractors with respect to such Structural Repairs, or condemnation proceeds applicable thereto, Tenant agrees to pay to Owner, as Additional Rent under this Lease, a monthly amount equal to the amortized portion for that month. Tenant agrees that Owner has no obligation to inspect the Premises for Structural Repairs (but Owner may elect to do so from time-to-time). Owner's obligations with respect to Structural Repairs will not commence until a reasonable time after Tenant has notified Owner that Tenant believes that Structural Repairs may be necessary for Tenant's use or occupancy of the Premises, which notice must specify the nature of the Structural Repairs desired by Tenant (provided, however, Owner will remain free to perform any Structural Repair that Owner identifies as necessary, even if no notice thereof was provided by Tenant). Notwithstanding the foregoing, during the first twenty-four (24) months of the Initial Term, Owner will be responsible for any extraordinary maintenance and repairs (and the cost of any replacement) of the Building rooftop HVAC units.

2. **Tenant's Obligations**

. Tenant will at all times, keep and maintain all elements of Premises (including, without limitation, the roof, landscaping, walls, footings, foundations and structural components of the Premises and the Parking Area) in the same condition and order of repair as exists as of the Term Commencement Date of this Lease, excepting only Structural Repairs, events of casualty or condemnation, and ordinary wear and tear. Tenant will provide Owner with a plan for periodic inspections and preventative

maintenance plan for the ordinary maintenance and repair of the Premises (including the roof, HVAC system, exterior walls, landscaping and Parking Area) consistent with Tenant's ordinary maintenance and repair of its other properties in the downtown Boise area for approval. Tenant will timely perform all preventative maintenance identified in the plan. Except as for Structural Repairs, Tenant will promptly make all repairs and replacements of every kind and nature, whether foreseen or unforeseen, which may be required to be made upon or in connection with the Premises in order to keep and maintain the Premises in the order and condition required by this Section 12.2. Except for the Structural Repairs, Owner will not be required to make any repair, whether foreseen or unforeseen, or to maintain any of the Premises in any way, and Tenant hereby expressly waives the right to make repairs at the expense of Owner, which right may be provided for in any Legal Requirements now or hereafter in effect. Tenant will, in all events, make all repairs for which it is responsible hereunder promptly, and all repairs will be in a good, proper and workmanlike manner. Owner represents to Tenant that Owner has a manufacturer's warranty on the roof and that Owner will secure commercially reasonable warranties from the contractor's performing Owner's Work, and Owner will undertake commercially reasonable efforts to enforce the warranties. Tenant's obligations under this Section 12.2 exclude matters covered under the warranties held by Owner, to the extent such matters are actually performed without cost to Owner by the manufacturer or contractor that provided the warranty.

3. **Owner's Cure Rights**

. If Tenant defaults under any of the provisions of this Section 12, Owner may after thirty (30) days' notice given to Tenant and the failure of Tenant to cure within such 30-day period, or if more than 30 days is required, to commence to cure such matter and diligently prosecute the same to completion (but without any notice or cure period in the event of an emergency), do whatever is necessary to cure the default as may be appropriate under the circumstances for the account of and at the expense of Tenant. In the event of an emergency, Owner will notify Tenant of the situation by phone or other available communication. All reasonable sums so paid by Owner and all actual reasonable costs and expenses (including, without limitation, attorneys' fees and expenses) so incurred, together with interest thereon at the Default Interest from the date of payment or incurring the expense, will constitute Additional Rent payable by Tenant under this Lease and will be paid by Tenant to Owner within thirty (30) days of presentation of any invoice therefor with reasonable backup for all expenses for which reimbursement is sought.

6. UTILITIES, SERVICES AND PERSONAL PROPERTY

1. **Utilities and Services**

. From and after the Delivery Date, Tenant will be responsible for ensuring the adequacy and suitability of all utility and other services to the Premises for Tenant's purposes, which will in any event include sufficient utilities and services (including heat) to prevent damage to the Premises. Tenant may reasonably alter, increase, upgrade, install, remove, reconfigure or otherwise change any utilities in furtherance of Tenant's use of the Premises. Tenant will not be required to remove or reconfigure the utility services at expiration of this Lease. Owner will not have responsibility for any failure of any utility services serving the Premises, and no utility interruption will be deemed an eviction or disturbance of Tenant, or render Owner liable to Tenant for damages, or relieve Tenant from the full and complete performance of all of Tenant's obligations under this Lease.

2. **Generator and UPS**

. Tenant will have the right to install a generator with pad site and uninterruptable power supply (UPS) to serve the Premises, subject to the Legal Requirements, but only on the Premises (or a location on Owner's Lands near the Premises) at a location that is reasonably acceptable to both Owner and Tenant. Owner will not charge Tenant additional rent or fees for the use of the pad site or any connecting conduit. The generator and UPS systems will be and remain Tenant's property, and Tenant will have the right to remove such items before expiration of this Lease for property inside of the Building and within thirty (30) days after expiration of this Lease for the generator and UPS system on the exterior pad.

3. **Data Services**

. Tenant, at its expense, will arrange for all telecommunications and data services for the Premises, including wire and cables. Owner will have no responsibility for the maintenance or removal of Tenant's data services and/or wiring or cabling, or for any infrastructure to which it is connected. Owner will have no liability for any liability, costs or damages in connection with Tenant's data facilities or any lines and cables located outside of the Premises (other than to the extent caused by any Owner Parties' intentional misconduct), including: (a) any shortages, failures, variations, interruption, disconnection, loss or damage caused by (i) the installation, maintenance, replacement, use or removal of telecommunication and data equipment and/or wiring by others; (ii) any failure of the environmental conditions or the power supply for the Premises to conform to the requirements for Tenant's data services; or (iii) any other problems associated with any of Tenant's data facilities by any other cause (other than

due to the intentional misconduct of Owner Parties); (b) any failure of any data services or data facilities to satisfy Tenant's requirements; or (c) any eavesdropping or wire-tapping by unauthorized parties. The occurrence of any of the foregoing will not be considered an actual or constructive eviction of Tenant or relieve Tenant from performance of Tenant's obligations under this Lease. To the extent that Owner's contractors, or other third parties who are not Owner Parties, cause damages to Tenant's data facilities, or any lines and cables located outside of the Premises, then Tenant will have the right to pursue its legal rights and remedies (if any) against such contractor or third party for such damage, subject to the limitations of this Lease (including Section 18.5).

4. **Tenant's Property**

. Tenant's Property placed on or in the Premises will not become a part of the realty and may be removed by Tenant at any time. Tenant's Property (and any other personal property brought to the Premises by any Tenant Party) will be deemed abandoned and will become the property of Owner if not removed within ten (10) business days after the expiration or sooner termination of the Term and may, if so elected by Owner, become the property of Owner; provided, however, Owner will have the right to require Tenant to remove all personal property from the Premises. Tenant will pay, prior to delinquency, any taxes and assessments that may be assessed or levied against Tenant's Property (and any other personal property brought to the Premises by any Tenant Party).

14. ALTERATIONS

. Except for the Tenant Improvements and the repair or replacement of finishes in the Premises (i.e., paint, carpet, flooring, wallcoverings, countertops and similar items), Tenant will not make any structural or non-structural Alterations to the Premises without Owner's consent; provided, however, the placement of art, decorations, boards, screens, and other items customarily placed on walls in office buildings will not be deemed to be an alteration or modification so long as they can be removed without substantial irreparable damage to the walls. Owner may condition its consent on various matters, including Tenant agreeing to remove the Alterations and repair any resulting damage on Lease termination at Tenant's cost, and if such alterations require construction permits from local governmental permitting authorities, Tenant posting security for the estimated cost of the Alterations or Tenant posting performance bonds for the Alterations, and/or lien waivers, and Owner's approval of the plans and specifications for the Alterations. All Alterations will be performed in a good and workmanlike manner, and in conformity with all Legal Requirements. Upon completion of any Alterations, Tenant will (a) if such alterations require construction permits from local governmental permitting authorities, provide Owner with "as built" plans and copies of all construction permits, contracts and approvals; and (b) provide Owner with proof of payment for all labor and materials. Owner agrees to execute affidavits of legal interest as necessary for Tenant to secure any permits or approvals for approved Alterations from any governmental authority having jurisdiction; provided, however, any fees, charges and expenses required in connection therewith must be borne solely by Tenant. Unless permitted under the Tenant Improvements or this Section 14, Tenant will not make any penetrations in the roof, walls, floor slab, foundations or exterior of the Building whatsoever without Owner's prior consent. In no event shall Tenant be required to remove the Tenant Improvements (including any data or cabling installations installed as part of Tenant's Work) or Alterations upon the expiration of earlier termination of this Lease, unless Owner requires such removal as part of any required consent to its installation. Owner also agrees that Tenant will not be obligated to remove any Tenant Improvements approved by Owner, unless Owner requires the removal obligation as a condition of Owner's approval; provided, however, Owner agrees that Tenant will not be obligated to remove any Tenant Improvements that are ordinary or customary for general office and call center uses.

15. LIENS

. Subject to Section 24, Tenant will not create or permit (by Tenant or anyone acting by, through or under Tenant), and will promptly discharge, any lien (or claim of lien) on the Premises other than any mortgage, lien, encumbrance or other charge created by or resulting from any act or omission by Owner or those claiming by, through or under Owner (except Tenant or anyone acting by, through or under Tenant). Notice is hereby given that Owner will not be liable for any labor, services or materials furnished or to be furnished to Tenant, or to anyone holding any of the Premises through or under Tenant, and that no mechanic's or other liens for any labor, services or materials will attach to or affect the interest of Owner in and to any of the Premises. Nothing in this Lease and no action or inaction by Owner will be deemed or construed to mean that Owner has granted to Tenant any right, power or permission to do any act or to make any agreement which may create, give rise to, or be the foundation for, any right, title, interest or lien in or upon the estate of Owner in any of the Premises. If Tenant fails to remove or satisfy any lien (or claim of lien) on the Premises within thirty (30) days of its imposition, Owner will have the right (but not the obligation) to cause the lien (or claim of lien) or claim to be discharged, paid, compromised, dismissed or removed, including by the posting of a bond. Any sums paid by Owner, including attorneys' fees and bond premiums, if applicable and reasonably and actually incurred, will be Additional Rent and due and payable to Owner by Tenant within thirty (30) days of presentation of an invoice with appropriate

backup for all such costs and expense for which reimbursement is sought. Tenant will promptly notify Owner of any lien (or claim of lien) filed against the Premises or any action related to any lien (or claim of lien) affecting title to the Premises upon actual knowledge thereof.

16. INDEMNIFICATION

. Owner Parties will not be liable to Tenant, and subject to Owner's release in the last sentence of this Section 16, Tenant will indemnify, defend (using legal counsel acceptable to Tenant) and hold harmless each of the Owner Parties from and against, any and all suits, claims, demands, liability, damages, costs and expenses of every kind and nature (for which the Owner Parties are not reimbursed by insurance required under this Lease), including, without limiting the generality of the foregoing, attorneys' fees and expenses, court costs, penalties and fines, for loss or damage to the Premises or the property of others, and any personal injury, illness or death, incurred in connection with or arising out of the following: (a) the use or occupancy of the Premises by Tenant Parties; (b) the Tenant Improvements, Tenant's Work and any alterations to the Premises undertaking or contracted for by Tenant; (c) the negligent or wrongful acts or omissions of Tenant Parties with respect to the Premises; (d) any failure of Tenant to fully, timely and faithfully observe, perform or comply with its obligation under this Lease; or (e) any failure of Tenant to fully, timely and faithfully observe, perform or comply with the Legal Requirements (or any of its other obligations under applicable law). Tenant's obligations under this Section 16 will survive any expiration or termination of this Lease. Each of Owner Parties will be express third-party beneficiaries of Tenant's obligations under this Section 16. If applicable law expressly restricts or limits Tenant's obligations under this Section 16, then Tenant will fulfill its obligations under this Section 16 to the extent not expressly restricted or limited by applicable law. Tenant's indemnity obligations hereunder will not obligate Tenant to indemnify, defend or hold harmless an Owner Party from the negligence or intentional misconduct of any Owner Party.

17. OWNER'S INSURANCE

Owner will maintain the following insurance on the Premises ("**Owner's Insurance**"):

1. Insurance against loss or damage to the Building under a fire and broad form of all risk extended coverage insurance policy (which may include flood insurance if the Premises is located within a flood hazard area and which may include earthquake insurance if the Premises is located in an area where earthquake insurance is customarily maintained for similar commercial properties). The insurance will be in amounts not less than the actual replacement cost of the Building, including the Tenant Improvements (when completed), but excluding footings and foundations and other parts of the Building which are not insurable, as determined by Owner from time to time. The insurance policies may contain reasonable exclusions and deductible amounts as desired by Owner. The insurance policy will include a waiver of any rights of subrogation or recovery against Tenant.

2. Contractual and comprehensive general liability insurance against claims for bodily injury, death or property damage occurring on, in or about the Premises, which insurance will be written on a so-called "Occurrence Basis," and will provide minimum protection with a combined single limit in an amount not less than the greater of Four Million ($4,000,000) Dollars. The insurance policy will name Tenant as an additional insured, which insurance will be

3. Any additional and/or other insurance with respect to the Building and Premises and in any amount as at the time is customarily carried by prudent owners with respect to buildings and premises similar in character, location and use and occupancy to the Building and the Premises ("**Comparable Buildings**"); provided, however, the additional and/or other insurance must be obtainable at commercially reasonable rates and on commercially reasonable terms.

4. Owner's Insurance will be written by companies selected by Owner that are authorized to do an insurance business in the State of Idaho. Sums due from Owner for deductibles or in-lieu-of insurance proceeds because of any self-insurance programs will be treated as insurance proceeds for all purposes under this Lease.

5. Owner will pay all premiums for Owner's Insurance, will renew or replace each policy, and will deliver to Tenant a certificate of insurance (reasonably satisfactory to Tenant) of the existing policy and any renewal or replacement policy at least thirty days prior to the expiration date of each policy.

6. Owner's Insurance may be carried under a "blanket" policy or policies covering the other properties or liabilities of Owner and Owner's affiliates, provided that the "blanket" policy or policies otherwise comply with the provisions of this Section 17. If any insurance is carried under a blanket policy, Owner will deliver to Tenant evidence of the issuance and effectiveness of the policy, the amount and character of the coverage with respect to the Premises and the presence in the policy of provisions of the character required in the above sections of this Section 17.

7. Tenant will give Owner immediate notice of any casualty loss with respect to the Premises. Owner will adjust, collect and compromise any and all claims. All proceeds of Owner's Insurance will be payable solely to Owner. To the extent that Owner receives insurance proceeds for matters previously paid by Tenant, Owner will reimburse Tenant to the extent of the insurance proceeds actually received.

18. TENANT'S INSURANCE

. Tenant, at its cost, will maintain the following insurance at all times from and after the Delivery Date or any earlier date as Tenant may enter the Premises ("**Tenant's Insurance**"). All liability insurance required herein may be provided by a combination of primary insurance and excess coverage providing the same aggregate amounts. Owner Parties will be named as an additional insured on Tenant's CGL and all other liability coverage.

1. **CGL Insurance**

. Commercial general liability insurance policy ("**Tenant's CGL**") (or equivalent ISO form in use from time to time in the state where the Building is located), providing coverage against any and all claims for bodily injury and property damage occurring in or on the Premises and/or arising out of or in any way related to the use, occupancy and maintenance of the Premises by Tenant and Tenant Parties, and including broad form blanket contractual coverage covering Tenant's obligations under this Lease. Tenant's CGL will have a limit of not less than $1,000,000 per occurrence, with a general aggregate limit of not less than $2,000,000.

2. **Workers Compensation Insurance**

. Tenant will continuously maintain Workers Compensation insurance and employer's liability insurance in the amount and in the form that Tenant is required by the Legal Requirements to maintain.

3. **Automobile Liability Insurance**

. Tenant will maintain commercial automobile insurance covering all owned, non-owned, borrowed and hired automobiles, with a combined single limit of not less than $1,000,00 for each occurrence.

4. **Umbrella/Excess Liability Insurance**

. Umbrella/excess liability insurance (over Tenant's GCL and automobile liability) of not less than $5,000,000 each occurrence.

5. **Property Insurance**

. All-risk property insurance covering all of Tenant's Property on a replacement cost basis, which policy must include a broad waiver of subrogation by endorsement in favor of Owner Parties. Tenant hereby waives any right of recovery against Owner Parties for any damage or loss that may occur to Tenant's Property located on the Premises, whether or not Tenant's Property is covered by insurance. Tenant acknowledges and agrees that Owner will not be purchasing property insurance for Tenant's Property, and therefore Tenant will not allow any element of Tenant's Property to be placed on, or remain on, the Premises if the element is not fully insured and fully covered by the waiver of subrogation identified herein, and Owner Parties fully protected by the waiver of recovery identified herein with respect to the element.

6. **Insurance Requirements**

. All insurance required to be maintained by Tenant will (a) be on an occurrence basis; (b) provide primary coverage and not contributory or excess with Owner's insurance coverage; (c) require thirty (30) days prior notice to the named insured and additional insured of any cancellation or reduction in coverage; (d) be written by responsible insurance companies licensed to do business in the state where the Premises is located; and (e) contain a waiver of subrogation with regard to Owner Parties and any additional insureds. The insurance may be provided by a blanket policy covering additional locations. Tenant will provide Owner with evidence of the required insurance, naming Owner Parties as an additional insured on or before the Delivery Date.

7. **Future Additional Insurance**

. Owner, upon sixty (60) days prior notice to Tenant, may reasonably change the limits and requirements of the insurance required to be maintain by Tenant to reflect changes in insurance standards and customary requirements for Comparable Building provided the same is available at commercially reasonable rates. If Tenant fails to provide the insurance required by this Section 18 within thirty (30) days after the date of notice from Owner, in addition to any other remedies available for the default, Owner may obtain the insurance and keep the same in force and effect, and Tenant will pay Owner, as Additional Rent, for the cost thereof,

plus Default Interest from the date of Owner's payment to the date of Tenant's reimbursement, within thirty (30) days after receipt of a billing from Owner accompanied by backup documentation for all amounts for which reimbursement is sought.

19. TENANT'S CONTRACTORS

. Tenant agrees to require any vendor, contractor or service provider that enters the Premises at the request of Tenant to maintain commercial general liability, business automobile and workmen's compensation insurance in accordance with Tenant's usual practices; provided, however, any construction contractor that alters or modifies the Premises must provide the insurance required of Tenant hereunder (unless otherwise approved by Owner for the contractor), including the provisions naming Owner Parties as additional insured and waiving any rights of subrogation or recovery. If Tenant requests or requires any vendor, contractor or service provider that enters the Premises to indemnify Tenant, name Tenant as an additional insured on any insurance policy, or to waive any rights of subrogation or recovery for the benefit of Tenant, then Tenant must cause the vendor, contractor or service provider to provide the same indemnity, insurance and waiver benefits to Owner Parties.

18. ASSIGNMENT, SUBLEASING

1. **Assignment or Sublease**

. Except as expressly provided below, Tenant will not assign this Lease or sublet the whole or any part of the Premises (each, a "**Transfer**" and any assignee or sublessee, a "**Transferee**") without Owner's consent. Tenant may Transfer this Lease without Owner's consent in the case of (each, a "**Permitted Transfer**"): (a) a merger or consolidation; (b) a sale of substantially all of Tenant's company assets or similar transfers involving Tenant's entire business enterprise, provided the sale or transfer is made to a bona fide third party and is not primarily intended to avoid the foregoing restriction on Transfers; or (c) a Transfer to a parent, subsidiary or affiliate of Tenant, provided that in all events the existing "Tenant" will not be released from liability hereunder and will remain primarily, jointly and severally liable with the Transferee for the performance of the obligations of Tenant hereunder. Tenant will notify Owner in writing of any Permitted Transfer within five (5) business days of the transaction. To assist Owner in determining whether to consent to any proposed Transfer (other than a Permitted Transfer), Tenant will submit the following to Owner as well as any other information reasonably requested by Owner, (i) the name and legal entity of the Transferee; (ii) a description of the proposed use of the Premises by the Transferee, provided the description will not imply that any change of use is allowed; (iii) the terms of the proposed Transfer; (iv) current financial statements, most recent federal income tax return, and operating history of the proposed Transferee; (v) the operation and management history of the proposed Transferee and individuals responsible for operating and managing the business on the Premises; and (v) the proposed Transfer documents. In all events, the existing "Tenant" will not be released from liability hereunder and will remain primarily, jointly and severally liable with the Transferee for the performance of the obligations of Tenant hereunder, unless the existing "Tenant" is expressly released from the obligations in a written instrument executed by Owner. A transfer of stock or change of control of Tenant will not be considered a Transfer.

2. **No Release**

. If Tenant makes a Transfer (with Owner's consent) or Permitted Transfer, then Tenant will nevertheless remain primarily liable to Owner for full payment of all Rent and performance of Tenant's obligations under this Lease, unless Tenant is expressly released from the obligations in a written instrument executed by Owner. No consent by Owner to any modification, amendment or termination of this Lease will affect the continuing liability of Tenant, unless Tenant is expressly released from the obligations in a written instrument executed by Owner.

3. **Assignee Obligation**

. If a Transfer is an assignment, then Tenant must provide Owner with a copy of the written assumption of this Lease, signed by Tenant and the Transferee. Thereafter, such assignee Transferee will be jointly and severally liable with Tenant for the payment of all Rent and performance of all of Tenant's obligations under this Lease. If a Transfer is a sublease, then Tenant must provide Owner with written evidence of Transferee assuming the obligations under this Lease that apply with respect to the portion of the Premises subleased, and a copy of the sublease. If the Transferee defaults, Owner may, without affecting any other rights of Owner, proceed against Tenant or any Transferee or any other person liable for Tenant's obligations hereunder. Tenant will provide the notice address for any subtenant or assignee to Owner prior to the effective date of the Transfer and if it is not provided, the applicable notice address will be deemed to be the Premises.

21. DAMAGE

. In the event of damage to the Premises or any part thereof, Tenant will promptly notify Owner thereof. To the extent insurance proceeds are available (or would have been available from Owner's Insurance should Owner fail to maintain the same), Owner will diligently cause the damage to be repaired; provided, however, Owner will have no obligation to make the repairs if the damages are a result of any negligent, willful or intentional acts of Tenant not covered by any applicable insurance. If the damage or destruction is more than twenty-five percent (25%) of the insurable value of the Premises, or if the damage or destruction is more than ten percent (10%) of the insurable value of the Premises and occurs during the last twelve (12) months of the Initial Term (unless Tenant previous exercised the Renewal Term) or during the last twelve (12) months of the Renewal Term, then either Owner or Tenant may elect to terminate this Lease as of the date the damage occurred regardless of the sufficiency of any insurance proceeds; provided, however, (a) Owner will not terminate the Lease if Tenant elects to repair the damage at Tenant's own expense or if Owner and Tenant execute a mutually acceptable amendment to this Lease to address the issues related to the damage; and (b) Tenant will not terminate the Lease if Tenant elects to repair the damage at Owner's own expense or if Owner and Tenant execute a mutually acceptable amendment to this Lease to address the issues related to the damage. Owner or Tenant will notify the other party of its election to terminate within sixty (60) days after the occurrence of the damage. Any damage or destruction, in whole or in part, of the Premises will in no way serve to abate Rent to be paid to Owner under this Lease or alter any of Tenant's other obligations under this Lease. Tenant will reimburse Owner for the deductible and any costs in excess of the insurance proceeds.

18. CONDEMNATION

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1. Tenant, promptly after obtaining knowledge of the institution of any proceeding for Condemnation, will notify Owner thereof and Owner will be entitled to participate in any Condemnation proceeding. Owner, promptly after obtaining knowledge of the institution of any proceeding for Condemnation, will notify Tenant thereof and Tenant will have the right to participate in the proceedings. Tenant irrevocably assigns to Owner any award or payment in respect to any Condemnation of Owner's interest in the Premises, except that (except as hereinafter provided) nothing in this Lease will be deemed to assign to Owner any award relating to the value of the leasehold interest created by this Lease or any award or payment on account of the Tenant's Property, moving expenses and out-of-pocket expenses incidental to the move, if available, to the extent Tenant will have a right to make a separate claim therefor against the condemnor, it being agreed, however, that Tenant will in no event be entitled to any payment that reduces the award to which Owner is or would be entitled for the condemnation of Owner's interest in the Premises.

2. If the entire Premises is subject to a Taking then this Lease will terminate on the day the Taking occurs.

3. If at least ten percent (10%) of the land that comprises the Premises, or the Building, or reasonable access to the Premises is subject to a Taking by a duly constituted authority or agency having jurisdiction, then either Owner or Tenant may terminate this Lease no later than ninety (90) days after the Taking has occurred by delivery of a notice to the other party terminating this Lease as of the last day of the month that is specified in the notice, which date will be no sooner than the last day of the month occurring at least thirty (30) days after the date of the termination Notice.

4. In the event of a Condemnation of any part of the Premises which does not result in a Termination of this Lease, the entire award of the Condemnation will be retained by Owner (other than amounts awarded directly to Tenant on account of Tenant's Property; and promptly after the Condemnation, Owner will commence and diligently continue to restore the Premises to a condition that is as similar as practical to that existing immediately prior to the Condemnation, in accordance with the provisions of this Lease.

23. SUBORDINATION TO FINANCING

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1. Tenant agrees that this Lease will at all times be subject and subordinate to the lien of any Mortgage, and Tenant agrees, upon demand, without cost, to execute instruments as may be required to further effectuate or confirm the subordination; provided, however, except by reason of the occurrence of an Event of Default, Tenant's rights under this Lease will not be disturbed, terminated or otherwise adversely affected, nor will this Lease be affected, by any default under any Mortgage. In the event of a foreclosure or other enforcement of any Mortgage, or sale in lieu thereof, the purchaser at the foreclosure sale will be bound to Tenant for the Term of this Lease and any Renewal Term, the rights of Tenant under this Lease will expressly survive, and this Lease will in all respects continue in full force and effect so long as no Event of Default has occurred and is continuing. Tenant will not be named as a party defendant in any foreclosure suit, except as may be required by law.

2. Tenant agrees to attorn, from time to time, to any new Owner taking title other than by foreclosure of any Mortgage or deed in lieu thereof, or, subject to Tenant's receipt of a fully executed Subordination, Non-Disturbance and Attornment Agreement (as defined below), Lender or any Owner taking title by foreclosure of any Mortgage or deed in lieu thereof,

upon the terms and conditions of this Lease for the remainder of the Term. The provisions of this Section 23.2 will inure to the benefit of any such new Owner or Lender, will apply notwithstanding that, as a matter of law, this Lease may terminate upon the foreclosure of the Mortgage, and no further instrument will be required to give effect to the provisions of this Section 23.2, subject to the non-disturbance provisions of Section 23.1, other than a fully executed Subordination, Non-Disturbance and Attornment Agreement.

3. Each of Tenant, Owner and Lender, upon demand of the other, hereby agrees to execute, from time to time, instruments in confirmation of the foregoing provisions of Section 23.1 and Section 23.2, reasonably satisfactory to the requesting party acknowledging the subordination, non-disturbance and attornment as are provided in this Lease, and setting forth the terms and conditions of its tenancy ("**Subordination, Non-Disturbance and Attornment Agreement**").

4. Each of Tenant, Owner and Lender agrees that, if requested by any of the others, each will, without charge, enter into a commercially reasonable Subordination, Non-Disturbance and Attornment Agreement, provided the agreement contains provisions providing for non-disturbance of Tenant in accordance with the provisions of Section 23.1. Owner, Tenant and Lender agree that the Subordination, Non-Disturbance and Attornment Agreement will include commercially reasonable provisions for the benefit of Tenant, Owner and Lender, including Lender's, Owner's and Tenant's agreement that (a) neither Owner nor Tenant will pay or accept any installment of Base Rent more than one (1) month in advance of the due date thereof; and (b) neither Owner nor Tenant will amend or modify the Lease (or enter into any agreement to do so) other than as expressly contemplated by this Lease (e.g., upon the exercise of any Renewal Term, or as contemplated under Section 21 of this Lease) without in each case the consent of Lender, which consent will not be unreasonably withheld, conditioned or delayed; provided, however, Lender may withhold or condition its consent to any amendment or modification which would or could (i) materially alter in any way the nature of Tenant's obligations hereunder or materially diminish any obligations of Owner or Tenant under the Lease, including the amount or time for payment of any Base Rent or Additional Rent, other than as expressly contemplated by this Lease; or (ii) result in any termination hereof prior to the end of the Term other than as expressly contemplated by this Lease. Notwithstanding the foregoing, no Subordination, Non-Disturbance and Attornment Agreement shall be deemed commercially reasonable unless it (1) acknowledges that if the TI Allowance or commission payable by Owner to Tenant's broker has not been fully paid, or if Owner's Work has not been fully performed, then Tenant may deduct the unfunded amount of the TI Allowance or commission to Tenant's Broker, or the reasonable cost of Tenant to perform Owner's Work, from the Base Rent owed by Tenant to Owner next becoming due; (2) recognizes Tenant's right under Section 26.4 to terminate this Lease due to Owner default; and (3) confirms for the benefit of Tenant that no attornment by Tenant to any such Owner or Lender shall operate to decrease the benefits to Tenant under this Lease or to increase the obligations of Tenant under this Lease in any material respect. Tenant's obligation to subordinate to any Lender shall be conditioned on Tenant receiving a Subordination, Non-Disturbance and Attornment Agreement from such Lender. If the Premises are subject to any encumbrance in favor of a Lender as of the Effective Date, it shall be a condition to the effectiveness of this Lease that Owner's Lender enter into a Subordination, Non-Disturbance and Attornment Agreement with Tenant not later than the Delivery Date.

24. PERMITTED CONTESTS

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1. After prior notice to Owner, Tenant will not be required to (i) comply with any Legal Requirement, or (ii) discharge or remove any lien referred to in Section 11 or Section 13, so long as Tenant contests, in good faith and at its expense, the existence, the amount or the validity thereof, the amount of the damages caused thereby, or the extent of its or Owner's liability therefor, by appropriate proceedings which will operate during the pendency thereof to prevent (A) the collection of, or other realization upon, lien so contested, (B) the sale, forfeiture or loss of any of the Premises, any Base Rent or any Additional Rent to satisfy the same or to pay any damages caused by the violation of any Legal Requirement or by any violation, (C) any interference with the use or occupancy of any of the Premises, (D) any interference with the payment of any Base Rent or any Additional Rent, and (E) the cancellation of any fire or other insurance policy.

2. In no event will Tenant pursue any contest with respect to any Legal Requirement or lien referred to above in a manner that exposes Owner or Lender to (i) criminal liability, penalty or sanction; (ii) any civil liability, penalty or sanction for which Tenant has not made provisions reasonably acceptable to Owner and Lender; or (iii) defeasance of its interest in the Premises.

3. Tenant agrees that each any contest will be promptly and diligently prosecuted to a final conclusion, except that Tenant will have the right to attempt to settle or compromise any contest through negotiations. Tenant will pay and save Owner and Lender harmless against any and all losses, judgments, decrees and costs (including all attorneys' fees and expenses) in connection with any contest and will, promptly after the final determination of any contest, fully pay and discharge the amounts which will be levied, assessed, charged or imposed or be determined to be payable therein or in connection therewith, together with all penalties, fines, interest, costs and expenses thereof or in connection therewith, and perform all acts that may be ordered or decreed as a result thereof. All recoveries by Tenant with respect to any successful contest will remain the sole property of Tenant (except Tenant's recovery of any funds by Owner will be paid to Owner).

25. TENANT DEFAULT

1. **Defaults**

. Tenant will be in default under this Lease if (a) Tenant fails to pay any Rent when due, or (b) Tenant fails to perform any other obligation under this Lease, or (c) a Financial Distress Default (defined in Section 25.8) occurs (an "**Event of Default**", provided, however, a default that is curable under Section 25.2 below (a "**Curable Default**") will not be an Event of Default during the applicable cure period (set forth in Section 25.2 below)). Except for Late Charges and Default Interest due under Section 10.4, Owner agrees that it will not invoke its remedies under this Section 25.1 if Tenant cures a Curable Default within the applicable cure period. If a Curable Default occurs and Tenant fails to cure the default within the applicable cure period, Owner may, immediately or at any time thereafter, and without preventing Owner from exercising any other right or remedy, (i) elect to terminate this Lease by notice, by lawful entry or otherwise, whereupon Owner will be entitled to recover possession of the Premises from Tenant and those claiming through or under Tenant and (ii) accelerate the payment of all Base Rent payable by Tenant for the balance of the Term and upon any election the sums will be immediately due and payable in full. In addition, Owner may require Tenant to pay to Owner a fee of $300 for each Curable Default not cured within the applicable cure period, and the fee will be Additional Rent immediately due and payable. The fee is intended to compensate Owner for the additional time and effort required to address Tenant's default of this Lease Termination of this Lease and any repossession will be without prejudice to any remedies Owner has for Rent or for a prior breach of any of the provisions of this Lease.

In case of termination, Tenant will be liable to Owner for all costs and expenses including the amounts due under Sections 25.3 and 25.4. Each right and remedy provided Owner in this Lease is cumulative and in addition to every other right or remedy provided in this Lease, or now or hereafter existing at law, in equity, by statute or otherwise. The exercise by Owner of any one or more of its rights or remedies will not preclude the simultaneous or later exercise by Owner of any or all other rights or remedies.

When this Lease requires service of a notice, that notice will replace rather than supplement any equivalent or similar statutory notice. When a statute requires service of a notice in a particular manner, service of that notice (or a similar notice required by this Lease) in the manner required by this Lease will replace and satisfy the statutory service of notice procedures.

2. **Cure Periods**

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1. **Monetary Defaults**

. If Tenant fails to pay any Rent or amounts hereunder when due, it will be a Curable Default and the cure period will be ten (10) business days after the date the Rent was due.

2. **Financial Distress Default**

. An Involuntary Financial Distress Default (defined in Section 25.8) is a Curable Default and the cure periods are set forth in Section 25.8. A Voluntary Financial Distress Default is not a Curable Default.

3. **Insurance Default**

If Tenant fails to maintain the required insurance, it is a Curable Default and the cure period is ten (10) business days after the date Owner provides notice of the default.

4. **Estoppel or Subordination Default** If Tenant fails to provide the requested estoppel certificate (Section 28) or subordination agreement (Section 23) within the time period provided, it will be a Curable Default and the cure period will be ten (10) business days from the date of Owner's second request for the estoppels or subordination.

5. Hazardous Substances

If Tenant breaches the provisions of Section 30 it will be a Curable Default and the cure period will be ten (10) business days after notice from Owner.

7. **Other Defaults**

. Any non-monetary breaches of this Lease not listed above in this Section 25.2 will be considered Curable Defaults and the cure period will be thirty (30) days after notice from Owner; provided that if the default cannot reasonably be cured within that time period, Tenant will have additional time as is reasonably necessary to cure the default so long as Tenant commences the cure within the thirty (30) day period and diligently pursues the cure to completion.

3. **Expense Recovery**

. Tenant will pay all costs and expenses incurred by Owner in connection with any default (whether the default is curable or not, and prior to the cure of any curable default), including (i) all collection costs and costs of obtaining Tenant's compliance with this Lease, including attorneys' fees and enforcement costs; and (ii) all Owner's other costs proximately caused by the default, excluding consequential or other indirect damages of Owner (including, without limitation, lost profits or business interruption), without waiver however of Tenant's rights under Section 31.14). The amounts will be due and payable immediately upon notice from Owner without regard to whether the cost or expense was incurred before or after the termination of this Lease. If proceedings are brought under the Bankruptcy Code, including proceedings brought by Owner, which relate in any way to this Lease, then Tenant will pay Owner the costs incurred by Owner in connection with the proceeding (without waiver of Tenant's rights under Section 31.14).

4. **Damages**

Notwithstanding termination of this Lease and reentry by Owner pursuant to Section 25.1, Owner will be entitled to recover from Tenant:

(a) Any unpaid Rent which had been earned by Owner prior to the time of termination with Default Interest accrued thereon; plus

(b) The amount by which the unpaid Rent would have been earned after termination until the time of an award exceeds the amount of loss of Rent that Tenant proves could have been reasonably avoided, with Default Interest accrued thereon; plus

(c) The worth at the time of an award of the amount by which the unpaid Rent for the balance of the Term (as extended, if at all prior to termination) exceeds the amount of the loss of Rent that Tenant proves could have been reasonably avoided (including Default Interest accruing from the date of the award until paid), discounted at the discount rate of the Federal Reserve Bank of San Francisco, or successor Federal Reserve Bank, on the date of termination; plus

(d) Any other amount necessary to compensate Owner for all the damage proximately caused by Tenant's failure to perform Tenant's obligations under this Lease, including amounts due and payable pursuant to Section 25.3.

5. **Non-Termination of Lease**

. No act of Owner other than a written declaration of termination of Lease will serve to terminate this Lease. If there is a Curable Default and Tenant fails to cure the default within the applicable cure period or if there is a default that is not a Curable Default, Owner will, without limiting any other rights or remedies provided herein or at law, have the right to sublet or assign this Lease, continue this Lease in effect after Tenant's breach and abandonment or surrender of possession, and recover Rent as it becomes due. Accordingly, if Owner does not elect to terminate this Lease on account of any default by Tenant, Owner may enforce all of Owner's rights and remedies under this Lease, including the right to recover all Rent as it becomes due. Separate actions may be maintained by Owner against Tenant from time to time to recover any damages which, at the commencement of any action, are then due and payable to Owner under this Section 25.5 without waiting until the end of the Term.

6. **Reletting**

. If Tenant's right of possession has been terminated (with or without termination of this Lease), Owner may at any time, and from time to time, relet the Premises in whole or in part either in its own name or as agent of Tenant for any period equal to, or more or less than the remainder of the then current Term. All rentals received by Owner from the reletting will be applied first to the payment of any amounts other than Rent due hereunder from Tenant to Owner; second, to the payment of any costs and expenses of the reletting and of alterations and repairs; third, to the payment of Rent due and unpaid hereunder; and the residue, if any, will be held by Owner and applied in payment of future Rent as it becomes due hereunder. Tenant will pay Owner for the loss of Base Rent by a payment at the end of each month during the remaining Term representing the difference between the Base Rent which would have been paid in accordance with this Lease and the Base Rent actually derived from the Premises by Owner for the month. Upon a reletting of the Premises, Owner will not be required to pay Tenant any sums received by Owner in excess of amounts payable in accordance with this Lease. For purposes of this Section 25.6, Tenant's right to possession will not be considered to have been terminated by Owner's efforts to relet the Premises, by Owner's acts of maintenance or preservation with respect to the Premises, or by appointment of a receiver to protect Owner's interests under this Lease. This list is merely illustrative of acts that may be performed by Owner without terminating Tenant's right to possession.

7. **Right of Owner to Cure Defaults**

. If Tenant defaults in its obligations under this Lease, Owner may cure the default, at Tenant's expense, and without notice, if Owner believes the default creates a risk of damage to persons or interests of others, or in any other case only upon Tenant's failure to remedy the default within the applicable cure period, if any. Tenant will reimburse Owner for any costs incurred by Owner to cure default, together with Default Interest accrued thereon.

8. **Financial Distress**

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1. **Definition**

. Each of the following will be a "**Financial Distress Default**" under this Lease unless cured within the cure periods set forth below: (a) the making by Tenant of any general assignment or general arrangement for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt, or a petition for reorganization or arrangement under any law relating to bankruptcy; and (b) the appointment of a trustee or a receiver to take possession of all or any part of Tenant's assets. A Financial Distress Default will be considered "**Voluntary**" if the action initiating the default was made by Tenant or a person or entity controlling, controlled by, or under common control with Tenant and otherwise will be considered "**Involuntary**". For example, a bankruptcy filing initiated by Tenant is a Voluntary Financial Distress Default and a bankruptcy filing by creditors of Tenant will be considered an Involuntary Financial Distress Default. Tenant will immediately notify Owner upon the occurrence of any Financial Distress Default. Tenant will have sixty (60) days to cure an Involuntary Financial Distress Default under clause (a) above by having the petition dismissed. Tenant will have sixty (60) days to cure an Involuntary Financial Distress default under clause (b) above by having the trustee or receiver dismissed or otherwise regaining possession of Tenant's assets.

2. **Filing of Petition**

3. . If a petition ("**Petition**") is filed by or against Tenant (as either debtor or debtor-in-possession) under Title 11 of the United States Code (the "**Bankruptcy Code**") and same is not dismissed within sixty (60) days thereafter:

(1) Adequate protection for Tenant's Lease obligations accruing after filing of the Petition will be provided within fifteen (15) days after filing in the form of a deposit equal to two months Base Rent (in addition to the security deposit), to be held by the court or an escrow agent approved by Owner and the court.

(2) All amounts payable by Tenant to Owner under this Lease represent reasonable compensation for the occupancy of the Premises by Tenant.

(3) Tenant or Trustee will give Owner at least thirty (30) days written notice of any abandonment of the Premises or proceeding relating to administrative claims. If Tenant abandons without notice, Tenant or Trustee will stipulate to entry of an order for relief from stay to permit Owner to reenter and relet the Premises.

(4) If Tenant was in default under the Lease before the filing of the Petition, whether or not Owner has given Tenant notice of that default and whether or not any cure period expired before filing the Petition, Tenant will be deemed to have been in default on the date the Petition was filed for all purposes under the Bankruptcy Code.

(5) For purposes of Section 365(b)(1) of the Bankruptcy Code, prompt cure of defaults will mean cure within thirty (30) days after assumption.

(6) For the purposes of Section 365(b)(1) the Bankruptcy Code, adequate assurance of future performance of this Lease by Tenant, Trustee or any proposed assignee of the Lease will require that Tenant, Trustee or the proposed assignee deposit two months Base Rent payments into an escrow fund (to be held by the court or an escrow agent approved by Owner, Tenant or Trustee, and the court) as security for future performance. In addition, if the Lease is to be assigned, adequate assurance of future performance by the proposed assignee will require that: (i) the assignee have a tangible net worth equal to eight times the annual Rent due hereunder or that the assignee's performance be unconditionally guaranteed by a person or entity that has a tangible net worth not less than the above amount; (ii) assignee assume in writing all of Tenant's obligations under the Lease.

(7) If Tenant or Trustee intends to assume and/or assign the Lease, Tenant or Trustee will provide Owner with thirty (30) days written notice of the proposed action, separate from and in addition to any notice provided to all creditors. Notice of a proposed assignment and assumption will state the assurance of prompt cure, compensation for loss and assurance of future performance to be provided to Owner. Notice of a proposed sale will state: (i) the name, address, and federal tax ID numbers of the proposed assignee; (ii) the terms and conditions of the proposed assignment; and (iii) the proposed assurance of future performance.

26. OWNER

1. **Definition of Owner**

. Anything contained herein to the contrary notwithstanding, any claim based on or in respect of any liability of Owner under this Lease will be enforced only against Owner's interest in the Premises (and the proceeds therefrom) and will not be enforced against Owner individually or personally, or against any of Owner Parties. The term "Owner" as used in this Lease so far as covenants or obligations on the part of Owner are concerned, will be limited to mean and include only the owner or owners

of the Premises or holder of the Mortgage in possession at the time in question of the Premises and in the event of any transfer or transfers of the title of the Premises, has herein named (and in case of any subsequent transfers or conveyances, the then grantor) will be automatically freed and relieved from and after the date of the transfer and conveyance of all personal liability with respect to respect the performance of any covenants or obligations on the part of Owner contained in this Lease thereafter to be performed. Any act which Owner is permitted to perform under this Lease may be performed at any time and from time-to-time by Owner or any person or entity designated by Owner.

2. **Tenant's Release**

. Tenant and all those claiming through or under Tenant, including Tenant Parties, will store their property in and occupy the Premises solely at their own risk. Tenant hereby releases Owner Parties from all claims by Tenant or Tenant Parties, including damage to furniture, equipment, fixtures or other property, or damage to business (including business interruption), arising directly or indirectly out of or from or on account of the occupancy and use or resulting from any present or future conditions or state of repair thereof, it being agreed that Tenant will assume the risk of loss thereof (other than due to the intentional misconduct of any Owner Party).

3. **Entry by Owner**

. Owner and its authorized representatives will have the right upon reasonable notice (which will be not less than two (2) business days, except in the case of emergency, in which event Owner will provide reasonable notice under the circumstances apparent to Owner) to enter the Premises at all reasonable business hours (and at all other times in the event of an emergency): (a) for the purpose of inspecting the same or for the purpose of doing any work under Section 12.1, and may take any action thereon as may be necessary or appropriate for any purpose (but nothing contained in this Lease or otherwise will create or imply any duty upon the part of Owner to make any inspection or do any work), and (b) for the purpose of showing the Premises to prospective purchasers and mortgagees and, at any time within six (6) months prior to the expiration of the Term of this Lease for the purpose of showing the same to prospective tenants. No entry will constitute an eviction of Tenant but any entry will be done by Owner in any reasonable manner as to limit unreasonable disruption of Tenant's business operation. Tenant may require that an employee of Tenant accompany Owner and its authorized representatives during any entry in the Premises and such parties shall comply with Tenant's reasonable security requirements in connection with such entry.

4. **Owner Default**

. Owner will perform all of Owner's covenants as set forth in this Lease. Owner will not be deemed to be in default under this Lease unless and until Tenant has given notice to Owner (and Lender, if any) of any default by Owner and Owner has failed to cure the default within thirty (30) days after Owner received Tenant's notice; provided, however, that if the nature of Owner's default is such that more than thirty (30) days are reasonably required for a cure, then Owner will not be deemed to be in default if Owner commences the cure within the original thirty (30) day period and thereafter diligently prosecutes the cure to completion. If Owner fails to cure the default stated in Tenant's notice within the applicable cure period, Tenant may pursue any remedy now or hereafter permitted or available to Tenant under the laws of the State of Idaho (except as limited in this Lease), provided in no event will Tenant be entitled to terminate this Lease unless and until Tenant provides a second notice to Owner (and Lender, if any) of Tenant's election to terminate the Lease if Owner fails to cure the default stated in Tenant's second notice within an additional period of thirty (30) days after Owner received Tenant's second notice. In no event will any of the Owner Parties be liable to Tenant, or any person or entity claiming under, by or through Tenant (including any employee, agent, subtenant, vendor, contractor or insurer), for any form of incidental or consequential damages, including any loss of use related to the Premises.

27. NOTICES

. All notices, demands, requests, consents, approvals, offers, statements and other instruments or communications required or permitted to be given pursuant to the provisions of this Lease will be in writing and will be deemed to have been given for all purposes if (a) provided by personal delivery; (b) sent by United States certified mail or registered, return receipt requested, postage prepaid; or (c) sent by overnight delivery using a nationally recognized overnight courier which will provide evidence of delivery upon request. The notice will be deemed delivered upon the earlier of (i) actual receipt; (ii) the date of refusal by the intended recipient to accept delivery; (iii) if sent by United States mail, three (3) days after deposit in the mail; and (iv) if sent by overnight courier, one (1) business day after deposit with the carrier. The notice address for each party is set forth in the Basic Lease Terms and may be changed by written notice to the other party. If any Lender has advised Tenant by notice in the manner aforesaid that it is the holder of a Mortgage and states in the notice its address for the receipt of notices, then simultaneously with the giving of any notice by Tenant to Owner, Tenant will send a copy of the notice to Lender in the manner aforesaid. For the purposes of this Section 27, any party may substitute its address by notice to the other party in the manner provided above. Any notice may be given on behalf of any party by its counsel.

28. ESTOPPEL CERTIFICATES

. Owner and Tenant will at any time and from time to time, upon not less than twenty (20) days' prior request by the other, execute, acknowledge and deliver to the other a statement in writing, certifying (i) that this Lease is unmodified and in full effect (or, if there have been modifications, that this Lease is in full effect as modified, setting forth the modifications), (ii) the dates to which Base Rent, payable hereunder has been paid, (iii) that to the knowledge of the signer of the certificate no default by either Owner or Tenant exists hereunder or specifying each the default of which the signer may have knowledge, (iv) the remaining Term hereof, (v) unless the party is a publicly traded company then in compliance with its disclosure obligations, with respect to a certificate signed on behalf of Tenant, that to the knowledge of the signer of the certificate, there are no proceedings pending or threatened against Tenant before or by any court or administrative agency which if adversely decided would materially and adversely affect the financial condition and operations of Tenant or if any proceedings are pending or threatened to the signer's knowledge, specifying and describing the same, and (vi) the other matters as may reasonably be requested by the party requesting the certificate. It is intended that any statements may be relied upon by Lender, the recipient of the statements or their assignees or by any prospective purchaser, assignee or subtenant of the Premises. Any failure of a party to timely deliver the statement required hereunder will constitute such party's agreement with the matters set forth in the statement.

18. SURRENDER AND HOLDING OVER

.

1. Upon the expiration or earlier termination of this Lease, Tenant will peaceably leave and surrender the Premises to Owner with Tenants Property (and third-party personal property) removed, broom clean and in good condition as received, except for ordinary wear and tear, and damage by casualty or condemnation, with all of Tenant's maintenance and repair obligations up to date. Owner may require Tenant to remove any Alterations made by Tenant and to restore the Premises to its prior condition, at Tenant's expense, provided Owner has notified Tenant of such removal requirements at the time of granting consent for the Alterations. All Alterations which Owner does not require Tenant to remove will become Owner's property and will be surrendered to Owner on termination of the Lease, except that Tenant may remove any of Tenant's Property that can be removed without substantial irreversible damage to the Premises (which damage must be repaired by Tenant). Tenant will repair, at Tenant's expense, any damage to the Premises caused by the removal of Tenant's Property. Tenant will not remove any fixtures or equipment considered a part of the realty without Owner's consent or unless required by Owner, including without limitation, any wiring; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; and floor coverings. Tenant's data facilities will not be considered part of the realty and Owner may elect either to require Tenant to remove Tenant's data facilities and all associated cables or wiring, or leave the same in place unless the was installed as part of Tenant's Work, in which case it shall be considered part of the Tenant Improvements. Tenant shall have no obligation to remove the Tenant Improvements.

2. Tenant's Property and personal property of third parties not so removed at the end of the Term or within ten (10) days after the earlier termination of the Term for any reason whatsoever will be deemed abandoned by Tenant, and Owner may thereafter cause the property to be removed from the Premises and disposed of in any manner Owner deems appropriate. The cost of removing and disposing of the property and repairing any damage to any of the Premises caused by the removal will be borne by Tenant. Owner will not in any manner or to any extent be obligated to reimburse Tenant for any property which becomes the property of Owner as a result of the expiration or earlier termination.

3. If Tenant fails to surrender possession of the Premises upon termination or expiration of this Lease, and Owner consents in writing to Tenant's continued occupancy (which consent may be withheld in Owner's sole discretion), then Tenant's occupancy will be deemed to be a month to month tenancy, with Base Rent at the rate of one hundred fifty percent (150%) of the Base Rent payable during the calendar month immediately preceding the termination or expiration, and Owner or Tenant may terminate the month to month tenancy upon thirty (30) days' notice to the other party. If Tenant fails to surrender possession of the Premises upon termination or expiration of this Lease and if Tenant does not obtain Owner's consent to Tenant's continued occupancy, then Tenant will be deemed a trespasser and will be liable to Owner for (i) all damages sustained by Owner as a result thereof (provided, however, Owner agrees to notify Tenant consequential damages may arise from a holdover by Tenant, and Tenant will be liable for only those consequential damages incurred thirty (30) days after Owner's delivery of the notice to Tenant); (ii) Base Rate at a rate of one hundred fifty percent (150%) of the Base Rent payable during the calendar month immediately preceding the termination or expiration.

30. HAZARDOUS SUBSTANCES

.

1. Tenant acknowledges that Tenant has received and reviewed environmental materials provided by Owner for the Premises, which materials are made available to Tenant for information purposes only and without any representation or warranty by Owner with respect thereto (express or implied), and conducted all environmental surveys

and inspections as Tenant desires, and found the environmental condition of the Premises to be safe and suitable for all for all of Tenant's intended uses. If Tenant has any concerns about the environmental condition of the Premises (or any other condition of the Premises) for a particular use, Tenant will not use the Premises for the use.

2. Tenant agrees that it will not on, about, or under the Premises, make, release, treat or dispose of any "hazardous substances" as that term is defined in the Comprehensive Environmental Response Compensation and Liability Act, and the rules and regulations promulgated pursuant thereto, as from time to time amended, 42 U.S.C. § 9601 et seq. (the "**Act**"); but the foregoing will not prevent the use of any hazardous substances in accordance with applicable laws and regulations. Tenant represents and warrants that it will at all times comply with the Act and any other federal, state or local laws, rules or regulations governing "Hazardous Materials". "**Hazardous Materials**" as used herein means all chemicals, petroleum, crude oil or any fraction thereof, hydrocarbons, polychlorinated biphenyls (PCBs), asbestos, asbestos-containing materials and/or products, urea formaldehyde, or any substances which are classified as "hazardous" or "toxic" under the Act; hazardous waste as defined under the Solid Waste Disposal Act, as amended 42 U.S.C. § 6901 et seq.; air pollutants regulated under the Clean Air Act, as amended, 42 U.S.C. § 7401, et seq.; pollutants as defined under the Clean Water Act, as amended, 33 U.S.C. § 1251, et seq., any pesticide as defined by Federal Insecticide, Fungicide, and Rodenticide Act, as amended, 7 U.S.C. § 136, et seq., any hazardous chemical substance or mixture or imminently hazardous substance or mixture regulated by the Toxic Substances Control Act, as amended, 15 U.S.C. § 2601, et seq., any substance listed in the United States Department of Transportation Table at 45 CFR 172.101; any chemicals included in regulations promulgated under the above listed statutes; any explosives, radioactive material, and any chemical or other substance regulated by federal, state or local statutes similar to the federal statutes listed above and regulations promulgated under any federal, state or local statutes. Tenant agrees that it will not store combustible or flammable materials on the Premises in violation of the Act or any other federal, state or local laws, rules or regulations governing Hazardous Materials.

3. To the extent required by the Act and/or any federal, state or local laws, rules or regulations governing Hazardous Materials, Tenant will remove any hazardous substances (as defined in the Act) and Hazardous Materials (as defined above) hereafter existing on the Premises that is arising out of or in any manner connected with Tenant's occupancy of the Premises during the Term. In addition to, and without limiting any other provision of this Lease, Tenant will and hereby does agree to defend, indemnify and hold Lender and Owner, their officers, directors, shareholders, partners, beneficial owners, trustees, members and employees, harmless from and against any and all causes of actions, suits, demands or judgments of any nature whatsoever, losses, damages, penalties, expenses, fees, claims, costs (including response and remedial costs), and liabilities, including, but not limited to, reasonable attorneys' fees and costs of litigation, arising out of or in any manner connected with (i) the violation of any applicable federal, state or local environmental law with respect to the Premises or Tenant's or any other person's or entity's prior ownership of the Premises; (ii) the "release" or "threatened release" of or failure to remove, as required by this Section 30, "hazardous substances" (as defined in the Act) and Hazardous Materials (as defined above) at or from the Premises or any portion or portions thereof, including any past or current release and any release or threatened release during the Initial Term and any extension or Renewal Term whether or not arising out of or in any manner connected with Tenant's occupancy of the Premises during the initial term or any extension or Renewal Term.

31. MISCELLANEOUS PROVISIONS

1. . Within twenty (20) days after request from Owner, but not more than one time in any calendar year, Tenant will provide Owner with the then current financial statement for Tenant, which financial statement must be in a form that is reasonably acceptable to Owner. If the financial statement is confidential, it will remain confidential, subject to review by potential purchasers and lenders, who would be instructed to maintain confidentiality. This Section will not apply to Tenant during any period in which Tenant is a publicly traded company.

2. .Owner and Tenant will each make reasonable efforts to mitigate the loss or damage occasioned by a default of the other party, provided that the obligation to mitigate will not relieve the defaulting party of the applicable burden of proof or otherwise affect the rights and remedies available to the non-defaulting party in the event of a default or otherwise allowed by law or equity.

3. **Authority** **.** If Tenant is an entity rather than a person, each individual executing this Lease on behalf of that entity or its constituents represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of that entity. If Owner is an entity rather than a person, each individual executing this Lease on behalf of that entity or its constituents represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of that entity.

4. **Independent Obligations**

. Each and every covenant and agreement contained in this Lease is, and will be construed to be, a separate and independent covenant and agreement, and the breach of any covenant or agreement by Owner will not discharge or relieve Tenant from its obligation to perform the same.

5. **No Waiver or Accord**

. Failure of Owner or Tenant to insist, in any one or more instances, upon strict performance of any term of this Lease, or to exercise any election herein contained, will not be construed as a waiver or a relinquishment, but the same will continue and remain in full force and effect. No party will be deemed to have waived any provision of this Lease unless expressed in writing and signed. Tenant specifically acknowledges that, where Tenant has received a notice of default (whether monetary or non-monetary), no acceptance by Owner of Rent (other than Owner's acceptance of full payment of all delinquent Rent) will be deemed a waiver of the default, and no acceptance by Owner of less than all delinquent Rent will be deemed to waive or cure any Rent default. Owner may, in its sole discretion, after receipt of partial payment of Rent, continue any pending action to collect the full amount of Rent due. The default will not be cured until Tenant pays the full amount due (in good funds). Payment by Tenant or receipt by Owner of a lesser amount than the Rent and other charges stipulated herein will be deemed to be on account of the earliest stipulated Rent or other charges. No endorsement or statement on any check or any letter accompanying any payment will be deemed an accord and satisfaction, and Owner's acceptance of the check or payment will be without prejudice to Owner's right to recover the balance of the amount due or pursue any other remedy to which it is entitled.

6. **Entire Agreement; Amendment; Severability**

. This Lease supersedes all prior and contemporaneous understandings and agreements; the provisions of this Lease are intended as the final expression of the parties' agreement; this Lease constitutes the complete and exclusive statement of its terms; and no representations, promises or agreements, oral or otherwise, between the parties not embodied herein will be of any force or effect. No provisions of this Lease may be changed, waived, discharged or terminated orally, but only by instrument in writing executed by Owner and Tenant, or their respective successors in interest, concurrently with or subsequent to the date of this Lease. Tenant acknowledges that neither Owner nor anyone representing Owner has made statements of any kind whatsoever on which Tenant has relied in entering into this Lease. Tenant has relied solely on its independent investigation and its own business judgment in entering into this Lease. If any term or provision of this Lease or the application thereof to any provision of this Lease or the application thereof to any person or circumstances will to any extent be invalid and unenforceable, the remainder of this Lease, or the application of the term or provision to person or circumstances other than those as to which it is invalid or unenforceable, will not be affected thereby, and each term and provision of this Lease will be valid and will be enforced to the extent permitted by law.

7. **Remedies Cumulative**

. No right or remedy conferred upon or reserved to Owner or Tenant in this Lease is intended to be exclusive of any other right or remedy; and each and every right and remedy will be cumulative and in addition to any other right or remedy contained in this Lease.

8. **Injunctive Relief**

. In addition to the other remedies provided in this Lease, Owner and Tenant will be entitled, to the extent permitted by applicable law, to injunctive relief in case of the violation or attempted or threatened violation of any of the provisions of this Lease, or to specific performance of any of the provisions of this Lease.

9. **Force Majeure**

. Except as specifically provided otherwise herein, time periods for Owner's or Tenant's performance under any provisions of this Lease (except for the payment of money) will be extended for periods of time during which the non-performing party's performance is prevented due to circumstances beyond the party's control, including strikes, embargoes, governmental regulations, inclement weather and other acts of God, war or other strife and no delay in performance will constitute an actual or constructive eviction or entitle Tenant to any abatement of Rent.

10. **Successors and Assigns**

. This Lease binds any party who legally acquires any rights or interest in this Lease from Owner or Tenant. However, Owner will have no obligations to Tenant's successor unless the successor acquired its rights in accordance with the terms of this Lease, including obtaining Owner's consent, if required under this Lease, to the Transfer by which such successor acquired its interest.

11. **Consents**

. Unless the same is determined by a court of competent jurisdiction to have been in bad faith, Owner and Tenant hereby waive any claim against the other party for money damages by reason of Owner's or Tenant's refusal, withholding or delaying its consent, approval or statement of satisfaction of any matter under this Lease, and in that event, affected party's only remedies will be an action for specific performance, injunction or declaratory judgment, to enforce any right to the consent. Owner and Tenant agree to exercise their rights and perform their obligations under this Lease reasonably and in good faith. Whenever the consent or approval of Owner or Tenant is required under the terms of this Lease, or Owner's or Tenant's consent or approval is otherwise requested by the other party, or where Owner or Tenant is given the right to exercise discretion with respect to a matter concerning the other party, then the applicable consent or approval must not be unreasonably withheld, exercised, or delayed, unless this Lease expressly provided that the party may withhold its consent or approval in the party's sole discretion or sole judgment. Nothing contained in this Lease will limit the right of each party to exercise its business judgment, or act in a subjective manner, with respect to any matter as to which the party has the right to consent, approve, or act, in its sole discretion or sole judgment, whether "objectively" reasonable under the circumstances, and any exercise will not be deemed inconsistent with any covenant of good faith and fair dealing otherwise implied by law to be part of this Lease.

12. **No Reservation/Counterparts**

. The submission of this Lease for examination, or for execution by Tenant, does not constitute a reservation or option to lease the Premises and this Lease becomes effective as a lease only upon execution and delivery thereof by Owner and Tenant. This Lease may be executed in counterparts and when all counterparts are executed, the counterparts will constitute a single binding instrument

13. **Choice of Law and Venue**

. This Lease will be governed by the laws of the State of Idaho. Further, the parties agree that because the Premises and the subject of this Lease relate to real property located in Ada County, Idaho, venue will be proper in Ada County, Idaho. Owner and Tenant each unconditionally waive any right to a jury trial.

14. **Costs and Attorneys' Fees**

. In the event of litigation between the parties hereto, declaratory or otherwise to enforce, interpret or seek redress of a breach of this Lease, the non-prevailing party will pay the costs thereof and attorneys' fees actually incurred by the prevailing party, in the suit, at trial and on appeal. The prevailing party will be the party who is determined by the presiding authority to have substantially prevailed as to its central claim. In addition, if Owner engages counsel to enforce the terms of this Lease, including for the purpose of preparing a delinquency notice, Tenant will be required to reimburse Owner for all costs incurred before the subject default is considered cured.

15. **Interpretation**

. The captions of sections or subsections of this Lease are to assist the parties in reading this Lease and are not a part of the terms and provisions of this Lease. Whenever required by the context of this Lease, the singular will include the plural and the plural will include the singular. The words "will", "shall" and "must" have the same meaning. The word "including" will be construed without limitation. The masculine, feminine and neuter genders will each include the other. The term "obligation" means "obligation, duty, agreement, liability, covenant or condition." Business days refer to days that are not Saturdays, Sundays, federal banking holidays or holidays identified in Idaho Code Section 73-108. In any provision relating to the conduct, acts or omissions of Tenant, the term "**Tenant**" will include Tenant's agents, employees, contractors, invitees and licenses, and any other person or entity using the Premises with Tenant's expressed or implied permission. Any indemnification obligation contained in this Agreement for the benefit of a party will extend to such party's members, managers, officers, employees, and agents and to the officers, employees, and agents of any such members and managers.

16. **No Recordation**

. Neither this Lease, nor any memorandum hereof, will be recorded. Owner may require that any subordination, non-disturbance and attornment agreement be recorded.

17. **Survival**

. The obligations of each party applicable to time periods prior to the termination or expiration of this Lease will survive termination or expiration of this Lease, including Owner's right to indemnification and defense from claims arising from matters occurring prior to termination even though the claim is asserted against Owner after termination, and payment of amounts not finally calculated by the expiration/termination date.

18. **Brokers**

. Except as specified in the Basic Lease Terms, Owner and Tenant represent and warrant to each other that the party has not engaged any broker, finder or other person entitled to any commission or fee in respect of the negotiation, execution or delivery of this Lease, and each party will indemnify and defend the other against any claims for any commission arising out of agreements made or alleged to have been made by or on behalf of the indemnifying party. If any new leases, modifications or other agreements are made between Owner and Tenant, Owner will not have any obligation to pay any brokerage or finders' fees to persons engaged by Tenant absent Owner's express written agreement to do so. Owner shall be responsible for payment of all commissions owed to the brokers specified in the Basic Lease Terms pursuant to separate agreement with such brokers.

32. USA PATRIOT ACT AND ANTI-TERRORISM LAWS

.

1. Each of Owner and Tenant represents and warrants to, and covenants with, the other that neither it, nor any of its respective constituent owners or affiliates currently are, or will be at any time during the Term hereof, in violation of any laws relating to terrorism or money laundering (collectively, the "**Anti-Terrorism Laws**"), including Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001, and relating to Blocking Property and Prohibiting Transactions with Persons who Commit, Threaten to Commit, or Support Terrorism (the "**Executive Order**") and/or the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Public Law 107-56) (the "**USA Patriot Act**").

2. Each of Owner and Tenant covenants with the other that neither it nor any of its respective constituent owners or affiliates is or will be during the Term hereof a "**Prohibited Person**," meaning: (i) a person or entity that is listed in the Annex to, or is otherwise subject to, the provisions of the Executive Order; (ii) a person or entity owned or controlled by, or acting for or on behalf of, any person or entity that is listed in the Annex to, or is otherwise subject to the provisions of, the Executive Order; (iii) a person or entity with whom Owner is prohibited from dealing with or otherwise engaging in any transaction by any Anti-Terrorism Law, including the Executive Order and the USA Patriot Act; (iv) a person or entity who commits, threatens or conspires to commit or support "terrorism" as defined in Section 3(d) of the Executive Order; (v) a person or entity that is named as a "specially designated national and blocked person" on the then-most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, http://www.treas.gov/offices/eotffc/ofac/sdn/t11sdn.pdf, or at any replacement website or other replacement official publication of the list; and (vi) a person or entity who is affiliated with a person or entity listed in items (i) through (v) above.

3. At any time and from time-to-time during the Term (not more frequently than annually), each party will deliver to the other, within ten (10) business days after receipt of a request therefore, a written certification or any other evidence reasonably acceptable to the requesting party evidencing and confirming the other party's compliance with this Section.

Signatures Appear on Following Pages

DATED effective as of the Effective Date.

OWNER:

AMERI SHORE LLC, an Idaho limited liability company

By: /s/ John Munding
Name: John Munding
Title: Manager
Date: November 14, 2019

TENANT:

TANDEM DIABETES CARE, INC., a Delaware corporation

By: /s/ David B. Berger
Name: David B. Berger
Its: EVP, Chief Legal & Compliance Officer
Date: November 13, 2019

EXHIBIT A

LEGAL DESCRIPTION OF OWNER'S LAND

PARCEL A-I:

PARCEL A OF RECORD OF SURVEY NO. 8903 RECORDED JANUARY 19, 2011 AS INSTRUMENT NO. 111006282, ADA COUNTY RECORDS, BEING A TRACT OF LAND SITUATED IN A PORTION OF THE NORTHEAST ONE QUARTER OF SECTION 9, TOWNSHIP 3 NORTH, RANGE 2 EAST, BOISE MERIDIAN, ADA COUNTY, IDAHO, DESCRIBED AS FOLLOWS:

**COMMENCING AT THE NORTHEAST CORNER OF SAID SECTION 9, BEING
NORTH 00º30'54" EAST A DISTANCE OF 2,654.95 FEET FROM THE EAST ONE QUARTER CORNER OF SAID SECTION 9, THENCE
SOUTH 35º23'25" WEST A DISTANCE OF 1,484.35 FEET TO A POINT ON THE WESTERLY RIGHT-OF-WAY LINE OF SPA STREET AND THE NORTHERLY RIGHT-OF-WAY LINE OF 14TH STREET; THENCE FOLLOWING SAID NORTHERLY RIGHT-OF-WAY LINE,
SOUTH 64º43'53" WEST A DISTANCE OF 616.30 FEET TO A POINT ON THE EASTERLY RIGHT-OF-WAY LINE OF SHORELINE DRIVE; THENCE LEAVING SAID NORTHERLY RIGHT-OF-WAY LINE AND FOLLOWING SAID EASTERLY RIGHT-OF-WAY LINE,
NORTH 25º11'42" WEST A DISTANCE OF 271.45 FEET; THENCE FOLLOWING SAID EASTERLY RIGHT-OF-WAY LINE,
NORTH 17º14'46" WEST A DISTANCE OF 144.63 FEET; THENCE FOLLOWING SAID EASTERLY RIGHT-OF-WAY LINE,
NORTH 25º11'42" WEST A DISTANCE OF 46.82 FEET TO THE POINT OF BEGINNING. THENCE FOLLOWING SAID EASTERLY RIGHT-OF-WAY LINE, NORTH 25º11'42" WEST A DISTANCE OF 12.00 FEET; THENCE LEAVING SAID EASTERLY RIGHT-OF-WAY LINE,
NORTH 64º43'53" EAST A DISTANCE OF 239.25 FEET; THENCE
NORTH 25º11'42" WEST A DISTANCE OF 145.20 FEET; THENCE
SOUTH 64º43'53" WEST A DISTANCE OF 52.00 FEET; THENCE
NORTH 25º11'42" WEST A DISTANCE OF 59.18 FEET TO A POINT ON THE SOUTHERLY RIGHT-OF-WAY LINE OF AMERICANA BOULEVARD; THENCE FOLLOWING SAID SOUTHERLY RIGHT-OF-WAY LINE 65.68 FEET ALONG A CIRCULAR CURVE TO THE RIGHT, SAID CURVE HAVING A RADIUS OF 1,362.91 FEET, A CENTRAL ANGLE OF 02º45'40", A CHORD BEARING OF NORTH 63º15'22" EAST AND A CHORD DISTANCE OF 65.67 FEET; THENCE FOLLOWING SAID SOUTHERLY RIGHT-OF-WAY LINE,
NORTH 64º38'11" EAST A DISTANCE OF 97.82 FEET; THENCE LEAVING SAID SOUTHERLY RIGHT-OF-WAY LINE AND FOLLOWING THE SOUTHERLY RIGHT-OF-WAY LINE OF 15TH STREET 273.34 FEET ALONG A CIRCULAR CURVE TO THE RIGHT, SAID CURVE HAVING A RADIUS OF 448.10 FEET, A CENTRAL ANGLE OF 34º57'00", A CHORD BEARING OF SOUTH 85º43'23" EAST AND A CHORD DISTANCE OF 269.12 FEET; THENCE FOLLOWING SAID SOUTHERLY RIGHT-OF-WAY LINE OF 16.05 FEET ALONG A CIRCULAR CURVE TO THE RIGHT, SAID CURVE HAVING A RADIUS OF 442.47 FEET, A CENTRAL ANGLE OF 02º04'42", A CHORD BEARING OF SOUTH 66º29'41" EAST AND A CHORD DISTANCE OF 16.05 FEET TO A POINT ON THE WESTERLY RIGHT-OF-WAY LINE OF SPA STREET; THENCE LEAVING SAID SOUTHERLY RIGHT-OF-WAY LINE AND FOLLOWING SAID WESTERLY RIGHT-OF-WAY LINE,
SOUTH 25º16'07" EAST A DISTANCE OF 190.14 FEET; THENCE LEAVING SAID WESTERLY RIGHT-OF-WAY LINE,
SOUTH 64º43'53" WEST A DISTANCE OF 143.01 FEET; THENCE
NORTH 25º11'42" WEST A DISTANCE OF 116.69 FEET; THENCE
SOUTH 64º43'53" WEST A DISTANCE OF 79.60 FEET; THENCE
NORTH 25º11'42" WEST A DISTANCE OF 128.29 FEET; THENCE
SOUTH 64º43'53" WEST A DISTANCE OF 119.00 FEET; THENCE
SOUTH 25º11'42" EAST A DISTANCE OF 128.29 FEET; THENCE
SOUTH 64º43'53" WEST A DISTANCE OF 254.24 FEET TO THE POINT OF BEGINNING.**

PARCEL A-II:

EASEMENT RIGHTS AS CONTAINED IN CROSS EASEMENT AGREEMENT, RECORDED MARCH 2, 1993, AS INSTRUMENT NO. 9315178, RECORDS OF ADA COUNTY, IDAHO.

Parcel C-I:

A parcel of land situated in the Northeast Quarter of Section 9, Township 3 North, Range 2 East, Boise Meridian, Ada County, Idaho, as shown on Record of Survey
No. 1016 filed as Instrument No. 8700968 and on Record of Survey No. 2371 filed as Instrument No. 9309431 both filed for record in the office of the Ada County
Recorder, more particularly described as follows:

Commencing at a point on the Southerly right of way line of Americana Drive and the former Easterly right of way line of Shoreline Drive said point also being the
most Westerly corner of that tract of land conveyed as Instrument No. 8635047, as filed for record in the offices of the Ada County Recorder; thence along the said
former Easterly right of way line of Shoreline Drive, South 25°27'35" East a distance of 380.03 feet to an iron pin on the existing Easterly right of way line of Shoreline Drive as shown on the right of way plans for State of Idaho Project No. DE-0083 (804), which point is the POINT OF BEGINNING;
thence leaving said former Easterly right of way line and along the existing Easterly right of way line of Shoreline Drive,
North 17°30'39" West a distance of 144.63 feet to an iron pin; thence continuing
North 25°27'35" West a distance of 46.82 feet to an iron pin; thence leaving the said existing Easterly right of way line,
North 64°28'00" East a distance of 254.25 feet to an iron pin; thence
North 25°27'35" West a distance of 128.29 feet to an iron pin; thence
North 64°28'00" East a distance of 119.00 feet to an iron pin; thence
South 25°27'35" East a distance of 128.29 feet to an iron pin; thence
North 64°28'00" East a distance of 79.60 feet to an iron pin; thence
South 25°27'35" East a distance of 116.69 feet to an iron pin; thence
North 64°28'00" East a distance of 143.01 feet to an iron pin on the Easterly boundary of said Instrument No. 8635047; thence along the Easterly boundary of
said Instrument No. 8635047,
South 25°32'00" East a distance of 344.79 feet to an iron pin on the Northerly right of way line of 14th Street; thence along the said Northerly right of way line of 14th Street,
South 64°28'00" West a distance of 616.30 feet to an iron pin on the said existing Easterly right of way line of Shoreline Drive; thence along the said existing Easterly right of way line of Shoreline Drive,
North 25°27'35" West a distance of 271.45 feet to the POINT OF BEGINNING.

Parcel C-II:

An Easement for Ingress and Egress, as established by Cross Easement recorded under Instrument No. 9315178, over the following described property:

A strip of land 24.00 feet in width situated in the Northeast Quarter of Section 9, Township 3 North, Range 2 East, Boise Meridian, Ada County, Idaho as shown on
Record of Survey No. 2374, filed as Instrument No. 9309432, in the Offices of the Ada County Recorder, the centerline of which is described as follows:

Commencing at a point on the Easterly right-of-way of Shoreline Drive at Station 29+93.76 as shown on the right-of-way plans for State of Idaho Project No.
DE-0083 (804), said point is marked by a brass cap; thence along the said Easterly right-of-way line of Shoreline Drive,
South 25°27'35" East 157.42 feet to the POINT OF BEGINNING; thence leaving said right-of-way line and along the centerline of said strip of land
North 64°28'00" East 35.00 feet to a point hereinafter referred to as point "E"; thence continuing
North 64°28'00" East 152.25 feet to a point hereinafter referred to as point "A"; thence
North 25°27'35" West 151.20 feet to a point hereinafter referred to as point "B"; thence
North 64°28'00" East 64.00 feet to a point hereinafter referred to as point "C"; thence
North 64°28'00" East 122.00 feet to a point hereinafter referred to as point "D"; thence
North 64°28'00" East 20.31 feet to a point; thence

North 06°52’57” West 41.37 feet to a point on the Southerly right-of-way line of the 15th Street Connector, the POINT OF ENDING; said strip of land is 24.00 feet wide (12.00 feet each side of centerline).

ALSO

A strip of land 24.00 feet in width, 12.00 feet each side of the following described centerline
BEGINNING at point “A” as heretofore described; thence
North 64°28’00”East 198.00 feet to the POINT OF ENDING.

ALSO

A strip of land 24.00 feet in width, 12.00 feet each side of the following described centerline
BEGINNING at point “B” as heretofore described; thence
North 25°27’35” West 53.18 feet to a point on the Southerly right-of-way of Americana Blvd, the POINT OF ENDING.

ALSO

A strip of land 24.00 feet in width, 12.00 feet on each side of the following described centerline
BEGINNING at point “C” as heretofore described; thence
South 25°27’35” East 151.20 feet to the POINT OF ENDING.

ALSO

A strip of land 24.00 feet in width, 12.00 feet each side of the following described centerline
BEGINNING at point “D” as heretofore described; thence
South 25°27’35” East 151.20 feet to the POINT OF ENDING.

EXHIBIT B

GRAPHIC DEPICTION OF THE leased land

The “Leased Land” is depicted in the illustration below, and is comprised of (1) the land within the red boundary; (2) an easement over the existing drive isle in the blue area depicted for access to parking on the Leased Land.

The “Leased Land” is subject to (and benefits from) the easements thereon or appurtenant thereto, including the ingress-egress easements identified in the depiction below (e.g., the 24’ wide ingress-egress easement); provided, however, the Leased does not include the right to use the 24’ wide ingress-egress easement north of the Leased Land (i.e., the portions for access to Americana) unless Owner relocates Tenant’s parking to the North Parking Area.

The “Leased Land” includes the obligation to maintain the landscaping in the public right-of-way adjacent to the Leased Land, and the legal obligations of landowners with respect to adjacent right-of-way (i.e., the removal of snow from sidewalks).

The “North Parking Area” is the portion of Owner’s Land that is not part of the Leased Land, and is depicted in green outline in the illustration below.

EXHIBIT C

Real property tax allocation map
(see Section 2, definition of "Taxes")

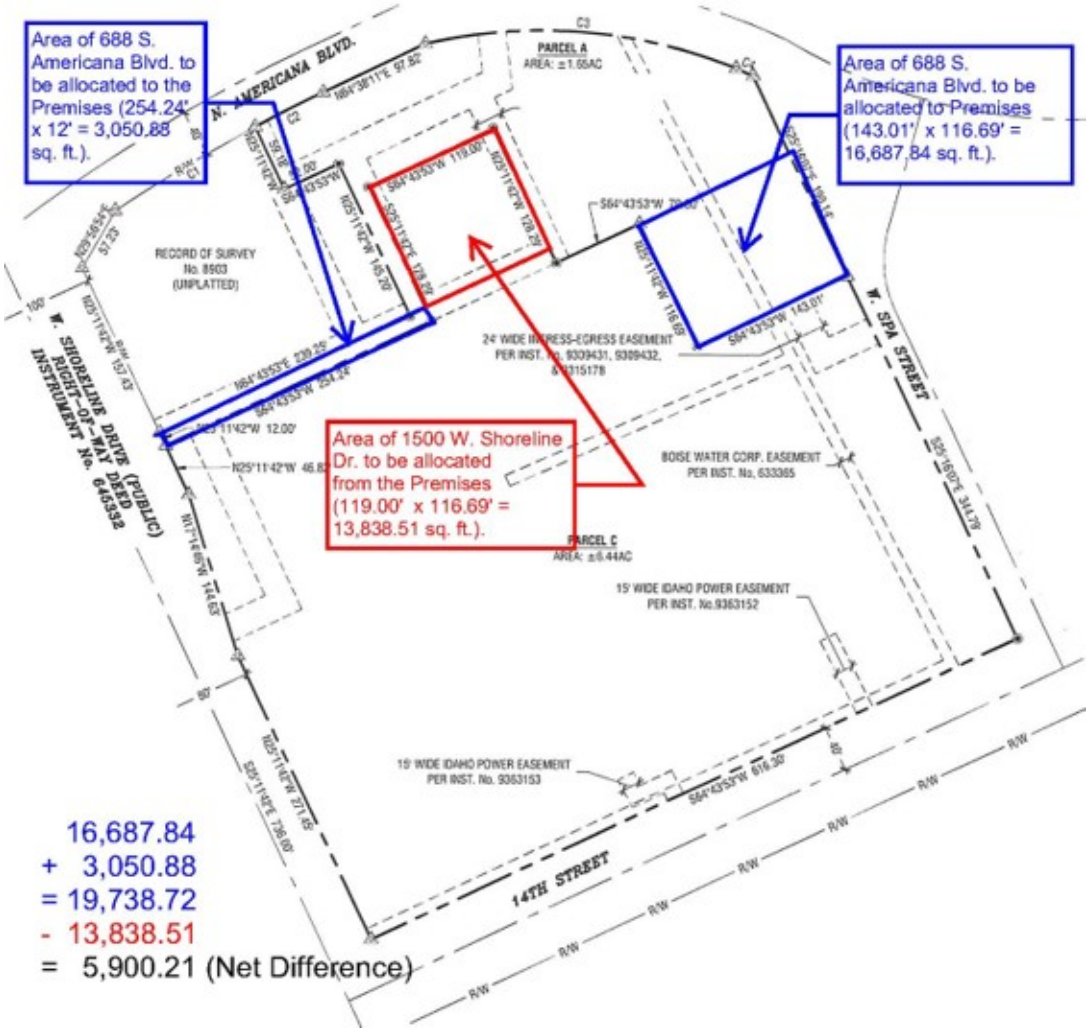

EXHIBIT D

Tenant IMPROVEMENTS

D.1 AS-IS

As set forth in Section 4 of the Lease, Tenant accepts the Premises in "AS IS" condition as of the Effective Date, subject to only to Owner's completion of Owner's Work.

D.2 NOT USED

D.3 TENANT IMPROVEMENTS

"**Tenant Improvements**" means all work of any kind which will be necessary to complete the Premises to a finished condition desired by Tenant other than Owner's Work. All Tenant Improvements be performed in accordance with the provisions of this Exhibit D. Tenant will perform or cause to be performed Tenant Improvements at Tenant's expense, subject only to Owner's payment of the TI Allowance as provided Section 7.2 of this Lease and all amounts due for Code Upgrades (as defined below) which are Owner's responsibility under Section D.5.4.2 of this Exhibit D.

D.4 OWNER'S APPROVALS

4.1 Owner approvals identified in this Exhibit D will be made in Owner's reasonable business judgment, which approvals will not be unreasonably withheld, conditioned or delayed. If any item requiring Owner's approval is timely disapproved by Owner, the procedure for preparation of the document and approval thereof will be repeated until the document is approved by Owner (subject to any additional rights or remedies provided herein).

4.2 Owner acknowledges that Tenant intends to use the Premises for general office and call center uses. Owner agrees that Owner will not disapprove Tenant's design or construction of the Tenant Improvements that are ordinary or customary tenant improvements for general office and call center users, unless the Tenant Improvements (a) materially modify the exterior appearance of the Building; (b) materially modify the Building's structure, roof structure, roof membrane or major rooftop HVAC equipment as they exist on the date of this Lease (the "Structural Elements"); or (c) fail to comply with applicable Legal Requirements. Owner further agrees that Owner will not unreasonably disapprove material modifications to the exterior appearance of the Building or the Structural Elements, and if the event of Owner's disapproval, Owner will notify Tenant of the reasons for disapproval and promptly work with Tenant to endeavor to resolve the reasons for disapproval.

D.5 DESIGN APPROVAL PROCEDURE

5.1 **Selection of Tenant's Design Team.** Tenant will retain architects and engineers registered to practice in the State of Idaho to prepare the Preliminary Drawings and Final Working Drawings (as the terms are defined below), which architects and engineers will be subject to Owner's approval. Tenant is solely responsible for the payment of all of Tenant's architects, engineers and sign designers.

5.2 **Preparation of Preliminary Drawings**

5.2.1 As promptly as practical after the Effective Date of the Lease, Tenant will submit to Owner a complete set of schematic design documents showing intended design character and finishes of the Premises ("**Preliminary Drawings**"). Preliminary Drawings must include, at a minimum (a) preliminary elevations and sections showing any changes to the exterior of the Building; (b) preliminary floor plans and reflected ceiling plans indicating interior design concept; (c) typical interior elevations; and (d) preliminary finish schedule including all colors and materials to be used.

5.2.2 Within five (5) business days after receipt of the Preliminary Drawings (provided, however, Owner will have an additional five (5) business days by notice thereof to Tenant prior to the expiration of the original 5-day period), Owner will return to Tenant one set of the Preliminary Drawings with Owner's approval, or with Owner's required conditions or modifications for Tenant to achieve Owner's approval (the "**Approval Conditions**"). If Tenant wishes to take exception to any Approval Conditions, Tenant may do so only by notice received by Owner within ten (10) business days from the date of receipt by Tenant of the Approval Conditions. Unless exception is so taken, it will be deemed that all Approval Conditions are acceptable to and approved by Tenant.

5.2.3 If Tenant does not take (or is deemed not to have taken) exception to the Approval Conditions, then Tenant must revise and resubmit the Preliminary Drawings to Owner for approval as soon as practical, but in any event within thirty (30) days after Tenant's receipt of the Approval Conditions.

5.2.4 If Tenant timely takes exception to the Approval Conditions, Owner and Tenant will work together in good faith to resolve the Tenant's exceptions on terms mutually acceptable to Owner and Tenant. Either Owner or Tenant may terminate this Lease at any time notice to the other party if Owner and Tenant are not able to resolve Tenant's exceptions. If Owner and Tenant come to agreement on the Approval Conditions, then Tenant must revise and resubmit the Preliminary Drawings to Owner for approval as soon as practical, but in any event within thirty (30) days after such agreement on the Approval Conditions.

5.3 **Final Working Drawings**

5.3.1 Tenant's architect and engineers will prepare a set of final working drawings (the "**Final Working Drawings**") that will substantially adhere to the Preliminary Drawings as approved by Owner. Final Working Drawings must be in both paper and electronic format (.pdf and .dwg) and must include, at a minimum: (a) final elevations and sections detailing any modifications to the exterior of the Building; (b) final floor plans and reflected ceiling plans indicating all work in the Building; (c) interior elevations, sections and details sufficient for construction; and (d) final finish schedule including all colors and materials to be used; (e) samples and color chips of the actual materials or charts firmly attached to illustration boards and clearly labeled; and (f) specifications not shown on drawings (which should be submitted on 8 ½" x 11" paper).

5.3.2 The Final Working Drawings must be submitted to Owner's representative for approval within forty-five (45) days after Owner's approval of the Preliminary Drawings.

5.3.3 Concurrently with Tenant's submission of the Final Working Drawings to Owner, Tenant will provide Owner with a comprehensive list of any Code Upgrades (defined in Section 5.4.2 of this Exhibit) below that Tenant believes to be Owner's responsibility, along with a reasonable explanation of why each identified Code Upgrade is needed and why the Code Upgrade is Owner's responsibility ("**Upgrade List**"), and a cost proposal from Contractor for the performance of each of the Code Upgrade, which cost proposal must be limited to the incremental cost to perform the Code Upgrades during Contractor's construction of the Tenant Improvements (the "**Upgrade Cost Proposal**").

5.3.4 Within five (5) business days after receipt of the Final Working Drawings ((provided, however, Owner will have an additional five (5) business days by notice thereof to Tenant prior to the expiration of the original 5-day period)), Owner will return one set of the Final Work Drawings, the Upgrade List and Upgrade Cost Proposal to Tenant with Owner's approval, or with Owner's required conditions or modifications for Tenant to achieve Owner's approval (the "**Approval Conditions**"). If Tenant wishes to take exception to any Approval Conditions, Tenant may do so only by notice received by Owner within ten (10) business days from the date of receipt by Tenant of the Approval Conditions. Unless exception is so taken, it will be deemed that all Approval Conditions are acceptable to and approved by Tenant.

5.3.4 If Tenant does not take (or is deemed not to have taken) exception to the Approval Conditions, then Tenant must revise and resubmit the Final Working Drawings, Upgrade List and Upgrade Cost Proposal to Owner for approval as soon as practical, but in any event within thirty (30) days after Tenant's receipt of the Approval Conditions.

5.3.5 If Tenant properly takes exception to the Approval Conditions, then Owner and Tenant will work together in good faith to resolve the Tenant's exceptions on terms mutually acceptable to Owner and Tenant. Either Owner or Tenant may terminate this Lease at any time by notice to the other party if Owner and Tenant are not able to resolve Tenant's exceptions. If Owner and Tenant come to agreement on the Approval Conditions, then Tenant must revise and resubmit the Final Working Drawings, Upgrade List and Upgrade Cost Proposal to Owner for approval as soon as practical, but in any event within thirty (30) days after such agreement on the Approval Conditions.

5.4 **Legal Compliance.**

5.4.1 Owner review of any documents from Tenant will not involve the review of Tenant's drawings for compliance with the Legal Requirements, or any representation or warranty that Tenant's documents are accurate, complete or suitable. Tenant is responsible for ensuring that the Final Working Drawings comply with all Legal Requirements and that the Final Working Drawings are accurate, complete and suitable for Tenant's purposes. Owner agrees to execute affidavits of legal interest as necessary for Tenant to secure any permits or approvals for approved Alterations from any governmental authority having jurisdiction; provided, however, Tenant is responsible for securing and paying for all fees and expenses related to the Tenant Improvements, including any plan review fees, building permit fees and impact fees. Tenant at all times will maintain at

the Premises the Final Working Drawings as approved by the local governing agencies and Owner, and all inspection reports with respect to the Tenant Improvements. All Tenant Improvements must be performed in a good and workmanlike manner, and in conformity with all Legal Requirements.

5.4.2 The Tenant Improvements must include any modifications or upgrades to the Building that are necessary for the Premises to comply with the applicable requirements of the Americans With Disabilities Act (ADA), building codes and life safety codes (collectively, the "**Code Upgrades**"). Owner will pay for the Code Upgrades (if any) that would be required to occupy the Building for general office uses if no Tenant Improvements are performed, and Tenant will be responsible for the cost of any Code Upgrades that are a result of (or made necessary by) the Tenant Improvements or Tenant's occupancy. Owner will pay for Code Upgrades that are Owner's responsibility in accordance with the Upgrade List and Upgrade Cost Proposal approved by Owner, Tenant will invoice Owner for the same concurrently with Tenant's invoice to Owner for the TI Allowance pursuant to Section 7.2, and Owner will pay the same to Tenant within ten (10) days after Owner's receipt of Tenant's invoice.

5.5 **Changes to Final Working Drawings.** All construction on the Premises must conform to the Final Working Drawings. No material changes, modifications or alterations to the Final Working Drawings may be made without Owner's prior consent. If Tenant desires to make any material changes to the Final Working Drawings, Tenant will first submit to Owner documents (the "**Change Order Documents**") indicating such requested changes (which documents may be in the same form as change requests documents to be submitted to the applicable building permit authority). Within five (5) days after receipt of the Change Order Documents(provided, however, Owner will have an additional five (5) business days by notice thereof to Tenant prior to the expiration of the original 5-day period), Owner will return to Tenant the Change Order Documents with an approval or any conditions or required modifications. If Tenant wishes to take exception to any conditions or required modifications, Tenant may do so only by notice received by Owner within ten (10) business days from the date of receipt of Owner's conditions or required modifications. Unless exception is so taken, all of Owner's conditions and required modifications will be deemed to be accepted by Tenant. If the Change Order Documents are returned to Tenant with conditions or required modifications and Tenant does not take exception to the comments as provided above, the Change Order Documents must be revised and resubmitted for approval within fifteen (15) days of their receipt by Tenant If Tenant properly takes exception to any conditions or required modifications as provided above, Owner and Tenant will promptly work together in good faith to discuss Tenant's objections with Tenant and to achieve Change Order Documents that are reasonably acceptable to Owner and Tenant.

D.6 CONSTRUCTION OF TENANT IMPROVEMENTS

6.1 **General Contractor.** The Tenant Improvements must be performed by a single general contractor engaged by Tenant ("**Contractor**") that is approved by Owner. Owner must approve Tenant's construction contract with Contractor for the Tenant Improvements (the "**Construction Contract**"). Tenant may not materially modify the Construction Contract without Owner's prior approval. Owner must be a third-party beneficiary of all of Contractor's obligations to Tenant under the Construction Contract with respect to the Tenant Improvements. Tenant and Contractor will be responsible for ensuring that all construction activities on the Premises will comply with this Lease. Prior to commencing Owner's Work, Contractor must execute an instrument in favor of Owner, in a form and substance reasonably acceptable to Owner, whereby Contractor acknowledges and agrees that (a) the Tenant Improvements is being performed for the benefit of Tenant, not Owner; (b) that Contractor's lien rights extend only to Tenant's leasehold interest in the Premises, and not Owner's fee simple interest in the Premises; and (c) Contractor will indemnity, defend and hold Owner harmless from any claim of lien against Owner's fee simple estate related to the Tenant Improvements that arises by, through or under Contractor (the "**Direct Agreement**").

6.2 **Commencement of Construction.** Tenant agrees to commence construction of the Tenant Improvements in accordance with the construction schedule under the Construction Contract after (a) Owner's approval of the Final Working Drawings; (b) Owner's authorization for Tenant to commence Tenant Improvements; and (c) Tenant's acquisition of all permits and approvals required for the Tenant Improvements. Owner's approval of the Construction Contract and Contractor's execution and delivery of the Direct Agreement to Owner, and thereafter Tenant will diligently carry such construction to completion in accordance with the terms of the Lease. Tenant may commence construction of the Tenant Improvements prior to the Delivery Date provided that such construction activities do not unreasonably interfere with Owner's Work.

6.3 **General Requirements**

6.3.1 The Tenant Improvements must be performed in all respects in compliance with the applicable Legal Requirements, the Final Working Drawings and any permits or approvals for the Tenant Improvements including, but not limited to, building permits and conditional use permits.

6.3.2 Tenant pay for all utility services related to the Tenant Improvements.

6.3.3 Tenant acknowledges that the Tenant Improvements will be subject to Owner's review and approval for the purpose of determining Tenant's substantial compliance with the Final Working Drawings, the Legal Requirements and any permits or approvals for the Tenant Improvements.

6.3.5 Tenant will stage its construction equipment and materials only in the staging area designated for such purpose by Owner, and Owner agrees to designate the stating area as close to the Building as reasonably practicable.

6.3.6 Tenant will cause Contractor to maintain the Premises in a clean condition and to provide daily removal, cleanup and proper disposal of all trash, rubbish, refuse and construction debris and spoils generated by Contractor in dumpsters and other appropriate facilities. Tenant and Contractor will be responsible for providing adequate dumpster(s) for such purpose (to be located only in areas designated by Owner). Tenant will contract with a disposal company to provide regular removal of its rubbish, trash and construction debris deposited in such dumpster.

6.3.7 Tenant and Contractor will be responsible for any and all damage done to the Premises related to the Tenant Improvements. If such damage is not repaired following notice from Owner to Tenant, Tenant agrees to promptly reimburse Owner for all costs incurred by Owner to repair (including re-patching and repainting) any and all damage done by the performance of the Tenant Improvements upon receipt of an invoice reasonably detailing such costs.

6.3.8 Tenant and Contractor will be responsible for providing all security deemed necessary by Tenant to protect the Tenant Improvements, including furniture, fixtures and inventory, during the conduct of the Tenant Improvements. Owner will not be responsible for any such security or protection.

6.3.9 To the fullest extent permitted by law, Contractor must indemnify, defend and hold harmless Owner Parties from and against claims, damages, losses and expenses (including attorneys' fees) arising out of or resulting from performance of the Work, provided that the claim, damage, loss or expense is attributable to bodily injury, sickness, disease or death, or to injury to or destruction of tangible property (other than the Tenant Improvements themselves), but only to the extent caused by the negligent acts or omissions of Contractor, a subcontractor, anyone directly or indirectly employed by them or anyone for whose acts they may be liable.

6.4 **Insurance**

6.4.1 Contractor must maintain the same insurance as required of Tenant under the Lease.

6.4.2 Any vendor, contractor or service provider that enters the Premises at the request of Tenant or Contractor must maintain commercial general liability, business automobile and workmen's compensation insurance in accordance with Tenant's or Contractors (as applicable) usual requirements; provided, however, all such policies must name Owner Parties as additional insured and must waive any rights of subrogation or recovery against Owner Parties.

6.4.2 Tenant will carry a builders-risk "all risk" casualty insurance policy in an amount of the replacement value of the entire Building and the Tenant Improvements on a replacement cost basis without optional deductibles, and such policy must name Owner Parties as additional insured (or loss payee, where appropriate) and must waiving any rights of subrogation or recovery against Owner Parties.

6.5 **As-Built Final Working Drawings** At the conclusion of construction, Tenant will cause Tenant's architect, engineers and Contractor to update the Final Working Drawings as necessary to effect reflect all changes made during the course of construction. Tenant must to deliver to Owner such record set of drawings (in .pdf and .dwg format) within ninety (90) days following the Term Commencement Date for the Premises. Owner will pay the reasonable costs of including the Code Upgrades in the as-built Final Working Drawings within fifteen (15) days after Tenant's presentation of an invoice for such costs, with reasonable backup of documentation evidencing the costs.

EXHIBIT E

base rent schedule

Lease Year	Monthly Base Rent	Base Rent PSF
1	$ 90,620.00	$ 11.50
2	$ 92,885.5	$ 11.79
3	$ 95,207.64	$ 12.08
4	$ 97,587.83	$ 12.38
5	$ 100,027.52	$ 12.69
6	$ 102,528.21	$ 13.01
7	$ 105,091.42	$ 13.34
8	$ 107,718.7	$ 13.67
9	$ 110,411.67	$ 14.01
10	$ 113,171.96	$ 14.36

* Lease Years 8 - 10 will apply only if Tenant elects to exercise the Renewal Term pursuant to Section 9.3 of the Lease.

EXHIBIT F

RULES AND REGULATIONS

Except as otherwise provided in the Lease, the following rules and regulations will apply to Tenants and its employees, agents, licensees and invitees while at the Premises (collectively, "**Tenant Parties**"):

1. Tenant Parties will not make or commit any illegal noises or disturbances of any kind on the Premises.
2. Tenant Parties will not use toilet rooms, water closets and other water apparatus for any purpose other than those for which they were constructed. No sweepings, rubbish, rags, ashes, chemicals or other unsuitable substance will be deposited in any water closet or other water apparatus.
3. Tenant will be responsible for the repair of any damage to the Premises from misuse or abuse caused by Tenant Parties, or any failure to shut off running water or liquid (excluding damage that is covered by insurance maintained by Owner).
4. No articles (except for interior art work) be fastened to, or holes drilled, or nails or screws driven into walls, windows, partitions, nor will the walls or partitions be painted, papered or otherwise covered, or in any way marked or broken, without Owner's consent. No linoleum, rubber or other air-tight covering will be laid on the floors.
5. Except for the Tenant Improvements and otherwise as permitted by the Lease, nothing will be placed on the outside of the Building on the Premises (other than Tenant's signs), or on the windows, window sills, or projections.
6. The only window treatment permitted for the windows in the Premises will be that approved by Owner.
7. Tenant is responsible for any locks or access control systems that Tenant desires for the Premises; provided, however, Tenant will coordinate any locks and access control systems with Owner. Tenant will ensure that windows and doors are securely locked before leaving the building on the Premises.
8. Tenant will do or permit anything to be done on the Premises, or bring or keep anything therein which will in any way increase the rate of fire insurance on the Premises, or conflict with the laws relating to fires, or with the regulations of the Fire Department or with any insurance policy upon the Premises or any part thereof or conflict with any of the rules and ordinances of the Department of Health. Tenant understands and agrees that any vehicle of Tenant obstructing any unauthorized area, and particularly in areas designated by specially painted curbs as fire lane areas, may be towed away at owner's risk and expense.
9. No animals may be brought into or kept in the Premises, other than service dogs (or other service animals in accordance with applicable law).
10. Besides Tenant's standard machinery for its Permitted Uses, no other machinery of any kind, other than normal office machines (i.e., computers, printers, copiers, fax machines, phones, shredders, scanners, etc.), will be allowed to be operated on the Premises without Owner's consent.
11. The Premises may not be used for any sleeping arrangements or for any immoral or illegal purpose.
12. All glass, access control devices, and trimmings, in or about the doors and windows of the Premises and all electric fixtures on the Premises will be kept whole, and whenever broken by anyone other than Owner Parties, will be immediately replaced and put in order by Tenant under the direction of and to the satisfaction of Owner and the same will be left whole and in good repair upon the termination of this Lease.
13. No cars, trucks, RVs, boats and trailers, or any other type of motor vehicle will be kept or stored in the parking lot. Only vehicles used by Tenant and its employees and its customers in conduct of their normal business and vehicles of Tenant's employees and visitors will be parked in the parking lots.
14. No antennae or satellite dishes of any kind will be permitted to be attached to the Premises without Owner's consent, which consent will not be unreasonably withheld.
15. All parking areas, pedestrian walkways and other public areas forming a part of the Premises will be subject to Owner's right to regulate the use thereof. Tenant agrees to conform to the reasonable rules and regulations that may be established or revised by Owner for these areas from time to time.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-222143) of Tandem Diabetes Care, Inc.,

(2) Registration Statement (Form S-8 No. 333-226944) pertaining to the 2013 Stock Incentive Plan of Tandem Diabetes Care Inc.,

(3) Registration Statement (Form S-8 No. 333-226915) pertaining to the 2013 Stock Incentive Plan, and 2013 Employee Stock Purchase Plan of Tandem Diabetes Care Inc.,

(4) Registration Statement (Form S-8 No. 333-192406) pertaining to the 2006 Stock Incentive Plan, 2013 Stock Incentive Plan, and 2013 Employee Stock Purchase Plan of Tandem Diabetes Care Inc.,

(5) Registration Statement (Form S-8 No. 333-202254) pertaining to the 2013 Stock Incentive Plan and 2013 Employee Stock Purchase Plan of Tandem Diabetes Care, Inc.,

(6) Registration Statement (Form S-8 No. 333-209685) pertaining to the 2013 Stock Incentive Plan and 2013 Employee Stock Purchase Plan of Tandem Diabetes Care, Inc.,

(7) Registration Statement (Form S-8 No. 333-223377) pertaining to the 2013 Stock Incentive Plan and 2013 Employee Stock Purchase Plan of Tandem Diabetes Care Inc., and

(8) Registration Statement (Form S-8 No. 333-216529) pertaining to the 2013 Stock Incentive Plan and 2013 Employee Stock Purchase Plan of Tandem Diabetes Care Inc;

of our reports dated February 24, 2020, with respect to the consolidated financial statements of Tandem Diabetes Care, Inc. and the effectiveness of internal control over financial reporting of Tandem Diabetes Care, Inc., included in this Annual Report (Form 10-K) of Tandem Diabetes Care, Inc. for the year ended December 31, 2019.

/s/Ernst & Young LLP

San Diego, California
February 24, 2020

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John F. Sheridan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Tandem Diabetes Care, 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(s) 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.

Tandem Diabetes Care, Inc.

By: /s/ John F. Sheridan

John F. Sheridan
President, Chief Executive Officer and Director

Dated: February 24, 2020

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Leigh A. Vosseller, certify that:

1. I have reviewed this Annual Report on Form 10-K of Tandem Diabetes Care, 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(s) 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.

Tandem Diabetes Care, Inc.

By: /s/ Leigh A. Vosseller

Leigh A. Vosseller
Executive Vice President, Chief Financial Officer and Treasurer

Dated: February 24, 2020

Exhibit 32.1

CERTIFICATION
Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Tandem Diabetes Care, Inc. (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Sheridan, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented.

Date: February 24, 2020

/s/ John F. Sheridan

John F. Sheridan
President, Chief Executive Officer and Director

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION
Pursuant to U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report on Form 10-K of Tandem Diabetes Care, Inc. (the "Company") for the year ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leigh A. Vosseller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented.

Date: February 24, 2020

/s/ Leigh A. Vosseller

Leigh A. Vosseller
Executive Vice President, Chief Financial Officer and Treasurer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing. A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.