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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2020

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**

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 x No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See 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 Exchange Act). Yes ☐ No ☒

As of July 22, 2020, there were 60,906,146 shares of the registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2020 (Unaudited)	December 31, 2019 (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 222,479	$ 51,175
Short-term investments	203,806	125,283
Accounts receivable, net	45,031	46,585
Inventories	62,263	49,073
Prepaid and other current assets	6,100	4,025
Total current assets	539,679	276,141
Property and equipment, net	44,385	32,923
Operating lease right-of-use assets	21,553	15,561
Other long-term assets	10,622	1,485
Total assets	$ 616,239	$ 326,110
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 16,371	$ 17,745
Accrued expenses	4,563	8,014
Employee-related liabilities	25,731	28,320
Deferred revenue	4,642	3,869
Common stock warrants	39,625	23,509
Operating lease liabilities	9,306	6,320
Other current liabilities	14,069	11,619
Total current liabilities	114,307	99,396
Convertible senior notes, net - long-term	195,344	—
Operating lease liabilities - long-term	17,632	14,063
Other long-term liabilities	21,252	17,672
Total liabilities	348,535	131,131
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $0.001 par value; 200,000 shares authorized, 60,787 and 59,396 shares issued and outstanding at June 30, 2020 (unaudited) and December 31, 2019, respectively.	61	59
Additional paid-in capital	934,402	819,626
Accumulated other comprehensive income	43	122
Accumulated deficit	(666,802)	(624,828)
Total stockholders' equity	267,704	194,979
Total liabilities and stockholders' equity	$ 616,239	$ 326,110

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Sales	$ 109,236	$ 93,255	$ 207,162	$ 159,250
Cost of sales	54,846	43,351	102,511	75,993
Gross profit	54,390	49,904	104,651	83,257
Operating expenses:				
Selling, general and administrative	50,440	40,565	100,157	75,524
Research and development	15,987	11,204	30,104	20,594
Total operating expenses	66,427	51,769	130,261	96,118
Operating loss	(12,037)	(1,865)	(25,610)	(12,861)
Other income (expense), net:				
Interest and other income	412	786	1,138	1,543
Interest and other expense	(3,221)	(9)	(3,221)	(16)
Change in fair value of common stock warrants	(14,336)	(424)	(16,258)	(13,170)
Total other income (expense), net	(17,145)	353	(18,341)	(11,643)
Loss before income taxes	(29,182)	(1,512)	(43,951)	(24,504)
Income tax benefit	(2,075)	—	(1,977)	—
Net loss	$ (27,107)	$ (1,512)	$ (41,974)	$ (24,504)
Other comprehensive loss:				
Unrealized gain on short-term investments	$ 105	$ 101	$ 147	$ 151
Foreign currency translation gain (loss)	183	20	(226)	24
Comprehensive loss	$ (26,819)	$ (1,391)	$ (42,053)	$ (24,329)
Net loss per share, basic and diluted	$ (0.45)	$ (0.03)	$ (0.70)	$ (0.42)
Weighted average shares used to compute basic and diluted net loss per share	60,424	58,219	60,082	57,996

See accompanying notes to unaudited condensed consolidated financial statements.

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

Three Months Ended June 30, 2020

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at March 31, 2020	60,071	$ 60	$ 847,056	$ (245)	$ (639,695)	$ 207,176
Exercise of stock options	453	1	12,254	—	—	12,255
Issuance of common stock for Employee Stock Purchase Plan	229	—	4,916	—	—	4,916
Exercise of common stock warrants	34	—	2,029	—	—	2,029
Equity component of convertible note issuance, net of issuance cost	—	—	85,803	—	—	85,803
Purchase of capped call options related to convertible notes	—	—	(34,069)	—	—	(34,069)
Stock-based compensation	—	—	16,413	—	—	16,413
Unrealized gain on short-term investments, net of deferred tax reversal	—	—	—	105	—	105
Foreign currency translation adjustments	—	—	—	183	—	183
Net loss	—	—	—	—	(27,107)	(27,107)
Balance at June 30, 2020	60,787	$ 61	$ 934,402	$ 43	$ (666,802)	$ 267,704

Six Months Ended June 30, 2020

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2019	59,396	$ 59	$ 819,626	$ 122	$ (624,828)	$ 194,979
Exercise of stock options	1,126	2	23,728	—	—	23,730
Issuance of common stock for Employee Stock Purchase Plan	229	—	4,916	—	—	4,916
Exercise of common stock warrants	36	—	2,036	—	—	2,036
Fair value of common stock warrants at time of exercise	—	—	141	—	—	141
Equity component of convertible note issuance, net of issuance cost	—	—	85,803	—	—	85,803
Purchase of capped call options related to convertible notes	—	—	(34,069)	—	—	(34,069)
Stock-based compensation	—	—	32,221	—	—	32,221
Unrealized gain on short-term investments	—	—	—	147	—	147
Foreign currency translation adjustments	—	—	—	(226)	—	(226)
Net loss	—	—	—	—	(41,974)	(41,974)
Balance at June 30, 2020	60,787	$ 61	$ 934,402	$ 43	$ (666,802)	$ 267,704

See accompanying notes to unaudited condensed consolidated financial statements.

Three Months Ended June 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at March 31, 2019	57,982	$ 58	$ 743,930	$ 41	$ (623,067)	$ 120,962
Exercise of stock options	364	—	5,579	—	—	5,579
Issuance of common stock for Employee Stock Purchase Plan	168	—	2,951	—	—	2,951
Exercise of common stock warrants	75	—	262	—	—	262
Fair value of common stock warrants at time of exercise	—	—	4,569	—	—	4,569
Stock-based compensation	—	—	12,413	—	—	12,413
Unrealized gain on short-term investments	—	—	—	101	—	101
Foreign currency translation adjustments	—	—	—	20	—	20
Net loss	—	—	—	—	(1,512)	(1,512)
Balance at June 30, 2019	58,589	$ 58	$ 769,704	$ 162	$ (624,579)	$ 145,345

Six Months Ended June 30, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2018	57,554	$ 57	$ 731,306	$ (13)	$ (600,075)	$ 131,275
Exercise of stock options	774	1	7,477	—	—	7,478
Issuance of common stock for Employee Stock Purchase Plan	168	—	2,951	—	—	2,951
Exercise of common stock warrants	93	—	326	—	—	326
Fair value of common stock warrants at time of exercise	—	—	5,479	—	—	5,479
Stock-based compensation	—	—	22,165	—	—	22,165
Unrealized gain on short-term investments	—	—	—	151	—	151
Foreign currency translation adjustments	—	—	—	24	—	24
Net loss	—	—	—	—	(24,504)	(24,504)
Balance at June 30, 2019	58,589	$ 58	$ 769,704	$ 162	$ (624,579)	$ 145,345

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2020	**2019**
Operating Activities		
Net loss	$ (41,974)	$ (24,504)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	4,035	2,946
Amortization of debt discount and debt issuance costs	2,457	—
Provision for expected credit losses	1,529	797
Provision (recovery) for inventory obsolescence	(81)	1,018
Change in fair value of common stock warrants	16,258	13,170
Amortization of discount on short-term investments	(1,127)	(166)
Benefit for deferred income taxes	(2,126)	—
Stock-based compensation expense	32,286	22,156
Other	36	26
Changes in operating assets and liabilities:		
Accounts receivable, net	(50)	(13,988)
Inventories	(13,181)	(8,454)
Prepaid and other current assets	(2,101)	(2,533)
Other long-term assets	6	(415)
Accounts payable	(324)	2,206
Accrued expenses	(3,455)	1,851
Employee-related liabilities	(3,094)	(140)
Deferred revenue	2,668	2,539
Other current liabilities	2,428	(1,050)
Other long-term liabilities	678	3,985
Net cash used in operating activities	(5,132)	(556)
Investing Activities		
Purchases of short-term investments	(166,984)	(74,164)
Proceeds from maturities of short-term investments	54,709	67,050
Proceeds from sales of short-term investments	35,027	1,400
Purchases of property and equipment	(16,552)	(8,169)
Acquisition of intangible assets	(4,805)	—
Net cash used in investing activities	(98,605)	(13,883)
Financing Activities		
Proceeds from issuance of convertible senior notes, net of $8,809 debt issuance costs	278,691	—
Purchase of capped call options related to convertible senior notes	(34,069)	—
Proceeds from issuance of common stock under Company stock plans	28,645	10,429
Proceeds from exercise of common stock warrants	2,036	326
Net cash provided by financing activities	275,303	10,755
Effect of foreign exchange rate changes on cash	(262)	15
Net increase (decrease) in cash and cash equivalents	171,304	(3,669)
Cash and cash equivalents at beginning of period	51,175	41,826
Cash and cash equivalents at end of period	$ 222,479	$ 38,157
Supplemental disclosures of cash flow information		
Income taxes paid	$ 131	$ 55
Supplemental schedule of non-cash investing and financing activities		
Right-of-use assets obtained in exchange for operating lease obligations	$ 8,805	$ 11,445
Property and equipment included in accounts payable	$ 977	$ 239
Intangible costs in accounts payable and other long-term liabilities	$ 2,348	$ —

See accompanying notes to unaudited condensed consolidated financial statements.

TANDEM DIABETES CARE, INC.

NOTES TO UNAUDITED CONDENSED 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 subsidiaries in the U.S. and 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 t:connect cloud-based data management application (t:connect) and 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 integration with CGM technology, of which two have also 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 (iCGM) devices; in February 2019, the t:slim X2 was the first insulin pump 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 in the United States.

As of June 30, 2020, the Company had $426.3 million in cash and cash equivalents and short-term investments. The Company has incurred operating losses since its inception and had an accumulated deficit of $666.8 million as of June 30, 2020, which included a net loss of $42.0 million for the six months ended June 30, 2020. Management believes that the cash, 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 cash collected from product sales, private and public offerings of equity securities, and debt financing. 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 unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments which are of a normal and recurring nature, considered necessary for a fair presentation of the financial information contained herein, have been included.

Interim financial results are not necessarily indicative of results anticipated for the full year or any other period(s). These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 (Annual Report), from which the balance sheet information herein was derived.

The condensed consolidated financial statements include the accounts of Tandem Diabetes Care, Inc. and its wholly-owned subsidiaries in the U.S. and Canada. All significant intercompany balances and transactions have been eliminated in consolidation.

The functional currency of the Company's foreign subsidiary is the local currency. The Company translates the financial statements of its 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 stockholders' equity section of the Company's condensed 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 the Company's condensed consolidated statements of operations.

Reclassification

Prior year amounts related to the presentation of proceeds from maturities and sales of short-term investments on the Company's condensed consolidated statement of cash flows, have been reclassified 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 six months ended June 30, 2020, as compared to those disclosed in the Annual Report, with the exception of policies put in place with regards to the Convertible Senior Notes.

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 because key operating decisions and resource allocations are made by the CODM using consolidated financial data.

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 its current estimate of expected credit losses. Provisions for expected credit losses are estimated based on historical experience, assessment of specific risk, review of outstanding invoices, forecasts about the future, and various assumptions and estimates that are believed to be reasonable under the circumstances, which included the Company's estimates of credit risks as a result of the novel coronavirus pandemic (COVID-19 global pandemic). 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.

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 determined the fair value of its convertible senior notes at June 30, 2020 to be $329.4 million, based on Level 2 quoted market prices as of that date (see Note 7, "Convertible Senior Notes"). The estimated fair value of certain of the Company's common stock warrants was determined using the Black-Scholes pricing model as of June 30, 2020 and December 31, 2019 (see Note 5, "Fair Value Measurements").

Operating Lease Right-of-Use Assets and Liabilities

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. The new standard was effective for the Company starting in the first quarter of 2019. The Company adopted the new standard using the modified retrospective approach and recognized right-of-use leased assets and corresponding operating lease liabilities of $12.4 million on the consolidated balance sheet 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.

Lease right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent their 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 similar lease incentives are recorded as property and equipment and as a 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 6, "Leases").

Intangible Assets Subject to Amortization

Intangible assets subject to amortization consist of developed technology and patents purchased or licensed that are related to the Company's commercialized products, and are included in other long-term assets on the consolidated balance sheets.

On June 24, 2020, the Company acquired Sugarmate, Inc. (Sugarmate), the developer of a popular mobile app for people with diabetes who use insulin, which is designed to help people with diabetes visualize diabetes therapy data in innovative ways. The Sugarmate acquisition was accounted for as an acquisition of assets in accordance with (ASU) No. 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. Substantially all of the purchase price was allocated to a technology-based intangible asset, which is being amortized on a straight-line basis over an estimated useful life of five years. The Company's results of operations for the three and six months ended June 30, 2020 included the operating results of Sugarmate since the date of acquisition, the amounts of which were not material.

Convertible Senior Notes

In accounting for the issuance of the convertible senior notes, the Company separated the notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of similar debt instruments that do not have associated convertible features. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the respective notes. The equity component is not remeasured as long as it continues to meet the condition for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the notes.

The Company allocated the issuance costs incurred to the liability and equity components of the notes based on their relative fair values. Issuance costs attributable to the liability component were recorded as a reduction to the liability portion of the notes and are being amortized to interest expense over the term of the notes. Issuance costs attributable to the equity component, representing the conversion option, were netted with the equity component in stockholders' equity.

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. 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.

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 t:connect 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. When there is no standalone value for the complementary product, the Company determines their value by applying the expected cost plus a margin approach and then allocates the residual to the insulin pumps. Deferred revenue related to these performance obligations that are satisfied over time was included in the following consolidated balance sheet accounts in the amounts shown as of June 30, 2020 and December 31, 2019 (in thousands):

	June 30, 2020	December 31, 2019
Deferred revenue	$ 4,180	$ 3,465
Other long-term liabilities	7,528	5,656
Total	$ 11,708	$ 9,121

Sales Returns

The Company offers a 30-day right of return to customers in the U.S. and Canada from the date of shipment 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, adjusted for known or expected changes in the marketplace when appropriate. The amount recorded in deferred revenue on the Company's consolidated balance sheets for allowances for sales returns was $0.6 million and $0.4 million at June 30, 2020 and December 31, 2019, respectively. Actual product returns have not differed materially from estimated amounts recorded in the accompanying condensed 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. The Company evaluates 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.

The following table provides a reconciliation of the change in product warranty liabilities from December 31, 2019 through June 30, 2020 (in thousands):

Balance at December 31, 2019	$	16,724
Provision for warranties issued during the period		9,658
Settlements made during the period		(6,721)
Decreases in warranty estimates		(1,838)
Balance at June 30, 2020	$	17,823

As of June 30, 2020 and December 31, 2019, total product warranty reserves of $17.8 million and $16.7 million, respectively, were included in the following consolidated balance sheet accounts (in thousands):

	June 30, 2020	December 31, 2019
Other current liabilities	$ 6,605	$ 4,707
Other long-term liabilities	11,218	12,017
Total warranty reserve	$ 17,823	$ 16,724

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 (see Note 8, "Stockholders' Equity"). The fair value of restricted stock unit (RSU) awards that vest solely based on service are estimated based on the fair market value of the underlying stock on the date of grant.

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 reflects the potential dilution that would occur if securities exercisable for or convertible into common stock were exercised for or converted into common stock. Dilutive common share equivalents are comprised of warrants, stock options outstanding under the Company's equity incentive plans, unvested RSUs, and potential awards granted pursuant to the ESPP, each calculated using the treasury stock method; and shares issuable upon conversion of the senior convertible notes using the if-converted method. For warrants that are recorded as a liability in the accompanying condensed 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 three and six months ended June 30, 2020 and 2019, 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Warrants to purchase common stock	640	611	640	611
Options to purchase common stock	6,195	6,790	5,992	6,216
Unvested restricted stock units	132	N/A	132	N/A
Awards granted under the ESPP	8	23	4	12
Convertible senior notes (if-converted)	—	N/A	—	N/A
	6,975	7,424	6,768	6,839

Recent Accounting Pronouncements

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 prior, other-than-temporary-impairment model. The new standard must be adopted using the modified retrospective approach and was effective for the Company starting in the first quarter of 2020. The Company determined there was no cumulative-effect transition adjustment to the opening balance of accumulated deficit for recognition of additional credit losses upon adoption of this standard as of January 1, 2020 based on its outstanding accounts receivable, the composition and credit quality of its short-term investments, and current economic conditions as of that date.

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 was effective for the Company starting in the first quarter of 2020. As a result, the Company modified certain fair value measurement disclosures primarily related to its Level 3 liabilities (see Note 5, "Fair Value Measurements").

In December 2019, the FASB issued ASU No. 2019-12, *Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects of the income tax accounting guidance, including requirements such as tax basis step-up in goodwill obtained in a transaction that is not a business combination, ownership changes in investments, and interim-period accounting for enacted changes in tax law. ASU 2019-12 is effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years, and early adoption is permitted. The Company early adopted the new guidance in the second quarter of 2020. As a result, the Company recognized, on a prospective basis, $13,000 of income tax expense in the second quarter of 2020 upon the reversal of tax benefits recorded in the first quarter of 2020 related to unrealized gains on short-term investments.

3. Short-Term Investments

The Company invests in marketable securities consisting of debt instruments of the U.S. Government, and financial institutions and corporations with strong credit ratings. The following represents a summary of the estimated fair value of short-term investments as of June 30, 2020 and December 31, 2019 (in thousands):

At June 30, 2020	Maturity (in years)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Available-for-sale securities:					
Commercial paper	Less than 1	$ 67,013	$ 8	$ (6)	$ 67,015
U.S. Government-sponsored enterprise	Less than 2	22,733	44	(5)	22,772
U.S. Treasury securities	Less than 1	32,036	48	—	32,084
Corporate debt securities	Less than 1	81,788	164	(17)	81,935
Total		$ 203,570	$ 264	$ (28)	$ 203,806

At December 31, 2019	Maturity (in years)	Amortized Cost	Gross Unrealized Gain	Gross 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

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 of those marketable securities to satisfy the Company's liquidity requirements.

The Company periodically reviews the portfolio of available-for-sale debt securities to determine if any investment is impaired due to changes in credit risk or other potential valuation concerns. Unrealized losses on available-for-sale debt securities at June 30, 2020 were not significant and were due to changes in interest rates, including credit spreads from perceived increased credit risks as a result of the COVID-19 global pandemic. 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. Based on the credit quality of the available-for-sale debt securities that are in an unrealized loss position, and the Company's estimates of future cash flows to be collected from those securities, the Company believes the unrealized losses are not credit losses. Accordingly, at June 30, 2020, the Company has not recognized any impairment losses related to its available-for-sale debt securities.

4. Accounts Receivable and Inventories

Accounts Receivable

Accounts receivable consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Accounts receivable	$ 48,170	$ 49,889
Less: allowance for credit losses	(3,139)	(3,304)
Accounts receivable, net	$ 45,031	$ 46,585

Allowance for Credit Losses

The following table provides a reconciliation of the change in the estimated allowance for expected accounts receivable credit losses for the three and six month periods ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Balance at beginning of the period	$ 3,384	$ 2,016	$ 3,304	$ 1,837
Provision for expected credit losses	666	455	1,529	797
Write-offs and adjustments, net of recoveries	(911)	(277)	(1,694)	(440)
Balance at end of the period	$ 3,139	$ 2,194	$ 3,139	$ 2,194

Inventories

Inventories consisted of the following as of June 30, 2020 and December 31, 2019 (in thousands):

	June 30, 2020	December 31, 2019
Raw materials	$ 34,216	$ 20,699
Work-in-process	12,329	16,532
Finished goods	15,718	11,842
Total Inventories	$ 62,263	$ 49,073

5. Fair Value Measurements

Authoritative guidance on fair value measurements defines fair value, and provides a consistent framework for measuring fair value and for disclosures of each major asset and liability category measured at fair value on either a recurring or a nonrecurring basis. Fair value is intended to reflect an assumed 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 June 30, 2020 and December 31, 2019, 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 June 30, 2020		
		(Level 1)	(Level 2)	(Level 3)
Assets				
Cash equivalents[(1)]	$ 221,360	$ 221,360	$ —	$ —
Commercial paper	67,015	—	67,015	—
U.S. Government-sponsored enterprise	22,772	—	22,772	—
U.S. Treasury securities	32,084	32,084	—	—
Corporate debt securities	81,935	—	81,935	—
Total assets	$ 425,166	$ 253,444	$ 171,722	$ —
Liabilities				
Common stock warrants	$ 39,625	$ —	$ —	$ 39,625
Total liabilities	$ 39,625	$ —	$ —	$ 39,625

		Fair Value Measurements at December 31, 2019		
		(Level 1)	(Level 2)	(Level 3)
Assets				
Cash equivalents[(1)]	$ 58,938	$ 58,938	$ —	$ —
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	$ 184,221	$ 76,917	$ 107,304	$ —
Liabilities				
Common stock warrants	$ 23,509	$ —	$ —	$ 23,509
Total liabilities	$ 23,509	$ —	$ —	$ 23,509

(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.

The Company's Level 3 liabilities at June 30, 2020 and December 31, 2019 include the remaining Series A warrants issued by the Company in connection with the public offering of common stock in October 2017. The Series A warrants, which expire in October 2022, 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.

During the six months ended June 30, 2020 and 2019, the Company issued 2,115 shares and 93,270 shares of common stock, respectively, upon the exercise of Series A warrants. As of June 30, 2020 and 2019, there were Series A warrants outstanding to purchase 415,200 shares and 417,515 shares, respectively, of the Company's common stock (see Note 8, "Stockholders' Equity").

The Company reassesses the fair value of the outstanding Series A warrants at each reporting date utilizing a Black-Scholes pricing model. Variables used in the pricing model include the closing market price of the Company's common stock at the balance sheet date, and estimates of stock price volatility, dividend yield, expected warrant term and risk-free interest rate. The Company develops its estimates based on publicly available historical data. A significant increase (decrease) in any of these inputs in isolation, particularly the market price of the Company's common stock, would have resulted in a significantly higher (lower) fair value measurement. The assumptions used to estimate the fair values of the outstanding Series A warrants at June 30, 2020 and December 31, 2019 are presented below:

	June 30, 2020	December 31, 2019
Risk-free interest rate	0.2%	1.6%
Expected dividend yield	0.0%	0.0%
Expected volatility	69.0%	77.2%
Expected term (in years)	2.3	2.8

The following table presents a summary of changes in the fair value of the Company's Level 3 financial liabilities for the three months ended June 30, 2020 and 2019:

	Six Months Ended June 30,	
	2020	2019
Balance at beginning of the period	$ 23,509	$ 17,926
Loss recognized from the change in fair value of common stock warrants	16,258	13,170
Decrease in fair value from warrants exercised during the period	(142)	(5,480)
Balance at end of the period	$ 39,625	$ 25,616

Of the loss recognized from the change in fair value of common stock warrants for the six months ended June 30, 2020 and 2019, $16.2 million and $11.0 million, respectively, was attributable to the change in the unrealized loss related to warrants outstanding as of June 30, 2020 and 2019.

6. Leases

The Company's leases consist primarily of operating leases for general office space, laboratory, manufacturing and warehouse facilities, and equipment. 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 on Vista Sorrento Parkway, in San Diego, California (Vista Sorrento 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 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 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 in the first quarter of 2019 related to the Initial Premises, and $4.7 million related to the First Amendment.

In March 2019, the Company entered into a lease agreement for approximately 40,490 square feet of space located on 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 on the Commencement Date in the second quarter of 2019.

In November 2019, the Company entered into a lease agreement for approximately 94,562 square feet of additional general office space located on Shoreline Drive, in Boise, Idaho (Shoreline Lease). The lease term commenced on July 1, 2020, and expires in June 2027. The Company has a one-time option to extend the term of the Shoreline Lease for a period of three years. The Company recognized right-of-use leased assets and corresponding operating lease liabilities of approximately $6.5 million on the consolidated balance sheet on the Commencement Date in the first quarter of 2020.

In January 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. The lease term begins in April 2020 and expires in March 2022. The Company recognized right-of-use leased assets and corresponding operating lease liabilities of approximately $2.3 million on the consolidated balance sheet on the Commencement Date in the first quarter of 2020.

The Company's lease cost recorded in the condensed consolidated statements of operations was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating lease cost	$ 1,899	$ 1,149	$ 3,655	$ 1,829
Short-term lease cost	71	23	135	45
Total lease cost	$ 1,970	$ 1,172	$ 3,790	$ 1,874

Maturities of operating lease liabilities at June 30, 2020 were as follows (in thousands):

Years Ending December 31,	
2020 (remaining)	$ 4,627
2021	9,421
2022	7,313
2023	3,388
2024	1,881
Thereafter	3,975
Total undiscounted lease payments	30,605
Less: amount representing interest	(3,667)
Present value of operating lease liabilities	26,938
Less: current portion of operating lease liabilities	(9,306)
Operating lease liabilities - long-term	$ 17,632

The weighted-average remaining lease term and weighted-average discount rate for operating leases were as follows:

	June 30, 2020	December 31, 2019
Weighted-average remaining lease term (in years)	4.0	3.6
Weighted-average discount rate used to determine operating lease liabilities	6.3%	6.6%

Cash paid for amounts included in the measurement of lease liabilities, representing operating cash flows from operating leases, was $2.9 million and $2.0 million for the six months ended June 30, 2020 and 2019, respectively.

7. Convertible Senior Notes

In May 2020, the Company entered into a purchase agreement with certain counterparties for the sale of an aggregate of $250.0 million principal amount of 1.50% Convertible Senior Notes due 2025 in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The notes consisted of a $250.0 million initial placement (Base Notes) and an over-allotment option that provided the initial purchasers of the Base Notes with the option to purchase an additional $37.5 million aggregate principal amount of notes (together with the Base Notes, the Notes), which was fully exercised. The Notes were issued pursuant to an Indenture, dated May 15, 2020, between the Company and U.S. Bank National Association, as trustee (Indenture). The net proceeds from the issuance of the Notes were $244.6 million, net of debt issuance costs and cash used to purchase the capped call transactions (Capped Call Transactions) discussed below.

The Notes are the Company's senior unsecured obligations. Interest is payable in cash semi-annually in arrears beginning on November 1, 2020 at a rate of 1.50% per year. The Notes mature on May 1, 2025 unless repurchased, redeemed, or converted in accordance with their terms prior to the maturity date.

The Notes are convertible into cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock, at the Company's election, at an initial conversion rate of 8.8836 shares of common stock per $1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately $112.57 (Conversion Price) per share of the Company's common stock. The conversion rate is subject to customary adjustments for certain events as described in the Indenture.

The Company may not redeem the Notes prior to May 6, 2023. The Company has the option to redeem for cash all or any portion of the Notes on or after May 6, 2023 if the last reported sale price of the Company's common stock has been at least 130% of the Conversion Price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest. No sinking fund is provided for the Notes.

Holders of the Notes may convert all or a portion of their Notes at their option prior to November 1, 2024, in multiples of $1,000 principal amounts, only under the following circumstances:

- if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the applicable conversion price of the Notes on each such trading day;
- during the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the Notes for each day of that five consecutive trading day period was less than 98% of the product of the last reported sale price of the Company's common stock and the applicable conversion rate of the Notes on such trading day;
- if the Company calls any or all of the Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or
- on the occurrence of specified corporate events.

On or after November 1, 2024, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances.

Holders of the Notes who convert in connection with a make-whole fundamental change, as defined in the Indenture, or in connection with a redemption are entitled to an increase in the conversion rate. Additionally, in the event of a fundamental change, as defined in the Indenture, holders of the Notes may require us to repurchase all or a portion of the Notes at a price equal to 100% of the principal amount of the Notes, plus any accrued and unpaid interest.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of similar debt instruments, which do not have an associated convertible feature. The carrying amount of the equity component representing the conversion option for the Notes was $85.8 million and was recorded as a debt discount, which is amortized to interest expense at an effective interest rate of 9.9%. The Company allocated $2.7 million of debt issuance costs to the equity component and the remaining debt issuance costs of $6.1 million were allocated to the liability component, which are amortized to interest expense under the effective interest rate method. The equity component of the Notes will not be remeasured as long as it continues to meet the conditions for equity classification. It is the Company's intent and policy to settle conversions through combination settlement, which essentially involves payment in cash equal to the principal portion and delivery of shares of common stock for the excess of the conversion value over the principal portion.

The Notes consisted of the following (in thousands):

	As of June 30, 2020
Liability:	
Principal	$ 287,500
Unamortized debt discount and debt issuance costs	(92,156)
Net carrying amount	$ 195,344
Carrying amount of the equity component	$ 85,803

As of June 30, 2020, the debt discount and debt issuance costs associated with the Notes will be amortized over the remaining period of approximately 4.8 years.

The following table details interest expense recognized related to the Notes for the three months ended June 30, 2020 (in thousands):

	Three Months Ended June 30, 2020
Contractual interest expense	$ 719
Amortization of debt issuance costs	159
Amortization of debt discount	2,298
Total	$ 3,176

The notes will have a dilutive effect to the extent the average market price per share of common stock for a given reporting period exceeds the conversion price of $112.57. As of June 30, 2020, the "if–converted value" did not exceed the principal amount of the Notes.

Capped Call Transactions

In connection with the issuance of the Notes, the Company entered into Capped Call Transactions with certain counterparties at a net cost of $34.1 million. The Capped Call Transactions are intended to reduce potential dilution to holders of the Company's common stock beyond the conversion price of $112.57, up to a conversion price of $173.18 on any conversion of the Notes, or to offset any cash payments the Company is required to make in excess of the principal amount of such converted Notes, as the case may be, with such reduction or offset subject to a cap. The cap price of the Capped Call Transactions is initially $173.18 per share of the Company's common stock, representing a premium of 100% above the last reported sale price of $86.59 per share of the Company's common stock on May 12, 2020, and is subject to certain adjustments under the terms of the Capped Call Transactions. Conditions that cause adjustments to the initial strike price of the Capped Call Transactions mirror conditions that result in corresponding adjustments for the Notes.

For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain criteria under the applicable accounting guidance, the Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of the Capped Call Transactions was recorded as a reduction of the Company's additional paid-in capital in the Company's consolidated balance sheet and will not be remeasured.

8. Stockholders' Equity

Shares Reserved for Future Issuance

The following shares of the Company's common stock were reserved for future issuance as of June 30, 2020 (in thousands):

Shares underlying outstanding warrants	640
Shares underlying outstanding stock options	6,802
Shares underlying unvested restricted stock units	132
Shares authorized for future equity award grants	2,256
Shares authorized for issuance pursuant to awards granted under the ESPP	1,462
	11,292

Common Stock Warrants

As of June 30, 2020, there were Series A warrants outstanding to purchase 415,200 shares of the Company's common stock at an exercise price of $3.50 per share, which were issued in connection with a financing in October 2017, and which expire in October 2022. Also outstanding as of June 30, 2020, 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, and warrants to purchase 31,166 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 32,574 and 34,894 shares of its common stock upon the exercise of warrants during the three and six months ended June 30, 2020, and 74,985 and 93,270 shares of its common stock upon the exercise of warrants during the three and six months ended June 30, 2019.

Stock Plans

The Company issued 454,045 and 1,126,487 shares, respectively, of its common stock upon the exercise of stock options during the three and six months ended June 30, 2020. The Company issued 364,818 and 773,782 shares, respectively, of its common stock upon the exercise of stock options during the three and six months ended June 30, 2019.

The ESPP enables eligible employees to purchase shares of the Company's common stock using their after-tax payroll deductions, subject to certain conditions. Generally, offerings under the ESPP consist of a two-year offering period with four six-month purchase periods which begin in May and November of each year. During the six months ended June 30, 2020 and 2019, 229,320 and 168,165 shares of the Company's common stock, respectively, were purchased under the ESPP for proceeds of $4.9 million and $3.0 million, respectively.

Stock-Based Compensation

The Company granted options to purchase 850,956 shares of common stock under the 2013 Plan during the six months ended June 30, 2020. During the six months ended June 30, 2019, the Company granted options to purchase 2,679,535 shares of common stock under the 2013 Plan, of which 1,644,715 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. Stock-based compensation expense was not recognized for these contingent stock option grants prior to the approval by the Company's stockholders of the increase in the number of shares of common stock reserved for issuance under the 2013 Plan, which occurred in June 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.

The Company also granted 131,848 restricted stock units (RSUs) during the three months ended June 30, 2020. These RSUs have a grant price equal to the closing price of the Company's common stock on the award date, and vest based only on service as to 25% of the underlying shares on the first anniversary of the award, with the balance of the RSUs vesting quarterly over the following three years.

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

	Stock Options			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Weighted average grant date fair value (per share)	$52.50	$41.38	$50.04	$39.11
Risk-free interest rate	0.4%	1.9%	0.6%	2.5%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	75.0%	71.8%	74.3%	71.8%
Expected term (in years)	6.0	6.0	6.0	6.0

	ESPP			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Weighted average grant date fair value (per share)	$36.18	$33.49	$36.18	$33.49
Risk-free interest rate	0.2%	2.3%	0.2%	2.3%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Expected volatility	65.7%	75.9%	65.7%	75.9%
Expected term (in years)	1.3	1.3	1.3	1.3

The Company records stock-based compensation expense associated with the ESPP using the Black-Scholes option-pricing model. Valuations are performed on the grant date at the beginning of the purchase period, which generally occurs in May and November of each year.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of sales	$ 2,162	$ 1,379	$ 4,326	$ 2,427
Selling, general & administrative	11,707	8,950	23,210	15,950
Research and development	2,552	2,084	4,750	3,779
Total	$ 16,421	$ 12,413	$ 32,286	$ 22,156

The total stock-based compensation expense capitalized as part of the cost of the Company's inventories was $1.3 million and $1.3 million as of June 30, 2020 and December 31, 2019, respectively.

9. Income Taxes

For the three and six months ended June 30, 2020, the Company's income tax expense is primarily attributable to state and foreign income tax expense as a result of current taxable income in those jurisdictions, as well as benefit associated with release of valuation allowance related to the acquisition of Sugarmate.

The Company used the year-to-date effective tax rate method to determine its interim income tax expense for federal and state jurisdictions where a reliable estimate of the annual effective tax rate could not be made.

The Company maintains a full valuation allowance against its net deferred tax assets as of June 30, 2020 based on the current assessment that it is not more likely than not these future benefits will be realized before expiration.

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of the COVID-19 global pandemic. While the CARES Act provides sweeping tax changes in response to the COVID-19 global pandemic, some of the more significant provisions which are expected to impact the Company's financial statements include removal of certain limitations on utilization of net operating losses, increasing the loss carryback period for certain losses to five years, and increasing the ability to deduct interest expense, as well as amending certain provisions of the previously enacted Tax Cuts and Jobs Act. Due to the recent enactment of the CARES Act, the Company is unable to quantify the impact, if any, that the CARES Act will have on its financial position, results of operations or cash flows but it is not anticipated to be significant.

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, data privacy, 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 losses 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.

As of June 30, 2020 and December 31, 2019, 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 deemed to be 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.

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

You should read the following discussion and analysis together with our financial statements and related notes in Part I, Item 1 of this Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 (Quarterly Report).

This Quarterly 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 Quarterly 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 Quarterly Report may relate to, among other things, our future or assumed financial condition, results of operations, liquidity, business forecasts and plans, research and product development plans, manufacturing plans, strategic plans and objectives, capital needs, financing plans and objectives, product launches, distribution plans, clinical trials, regulatory approvals and competitive environment. We caution you that the foregoing list may not include all of the forward-looking statements made in this Quarterly 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 in the section entitled "Risk Factors" in Part II, Item 1A, and elsewhere in this Quarterly Report, as well as the other public filings we make with the Securities and Exchange Commission. In particular, as discussed in greater detail below, our financial condition, operating results, liquidity and business prospects could be materially adversely affected by the impacts and disruptions caused by the novel coronavirus pandemic (COVID-19 global pandemic). You should read this Quarterly Report with the understanding that our actual future financial condition and 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.

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), which is capable of remote feature updates and is designed to display continuous glucose monitoring (CGM) sensor information directly on the pump home screen, as well as our complementary product offerings, such as our cloud-based t:connect data management application (t:connect) and the Tandem Device Updater. 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, three of which we also launched outside the United States since 2018. Four of our insulin pumps have featured integration with CGM technology, of which two have also featured an automated insulin delivery (AID) algorithm. The United States Food and Drug Administration (FDA) has defined requirements for the interoperability of devices as a complete AID system, which we believe will help support continued rapid innovation by streamlining the regulatory pathway for integrated products in the United States. This interoperability designation is comprised of three categories: alternate controller enabled (ACE) infusion pumps, integrated continuous glucose monitor (iCGM) devices, and interoperable automated glycemic controller (iAGC) technology. In June 2018, the t:slim X2 was the first insulin pump designated as compatible with iCGM devices; in February 2019 the t:slim X2 was the first insulin pump to receive ACE pump designation, and in December 2019 our Control-IQ technology for the t:slim X2 was cleared as the first iAGC for users age 14 and older. In June 2020, we received an expanded indication for our Control-IQ technology for users age six and older.

In the four-year period ended June 30, 2020, we shipped approximately 169,000 insulin pumps, which is representative of our estimated global installed customer base, assuming the typical four-year reimbursement cycle. Approximately 137,000 of these pumps were shipped to customers in the United States and approximately 32,000 were shipped to international markets.

Today, our t:slim X2 hardware platform represents 100% of our new pump shipments and now nearly all of our in-warranty customers benefit from having the X2 platform. The simple-to-use t:slim X2 is the smallest durable insulin pump available, and the only commercial insulin pump that allows users to update their pumps' software quickly and easily from a personal computer using our revolutionary Tandem Device Updater tool. This unique offering positions us to bring future innovations, including our next generation AID algorithms, to our in-warranty t:slim X2 customers faster than the industry has been able to in the past and independent of the typical four-year insurance pump reimbursement cycle. We have offered in-warranty t:slim customers in the United States four different software updates for no-cost since the Tandem Device Updater was approved in July 2016, 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 CGM integration in the third quarter of 2018, offering no-cost software updates for Basal-IQ technology in the third quarter of 2019, and initiated our scaled launch of Control-IQ technology updates in select geographies in July 2020, which we plan to continue throughout the second half of 2020, subject to required regulatory and reimbursement approvals.

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.

We continue to deliver complementary offerings in support of our digital health strategy, beyond t:connect and the Tandem Device Updater. In the first quarter of 2020, we began a limited launch in the United States of our first-generation t:connect mobile application, followed by general availability in July 2020. This mobile app was designed to wirelessly upload pump data to our t:connect diabetes management application, receive notification of pump alerts and alarms, and provide a discrete, secondary display of glucose and insulin data. The availability of this mobile app is intended to reduce patient burden and increase healthcare provider office efficiency by reducing the manual and more time-consuming steps historically required for data extraction. In addition, in the second quarter, we acquired Sugarmate, a popular app designed to help people visualize diabetes therapy data in innovative ways. We intend to support the Sugarmate app in addition to our t:connect mobile app to provide a wide variety of features intended to benefit a broad community of people with diabetes.

For the six months ended June 30, 2020 and 2019, our consolidated sales were $207.2 million and $159.3 million, respectively. For the six months ended June 30, 2020 and 2019, our net loss was $42.0 million and $24.5 million, respectively. Worldwide pump sales accounted for 60% and 71% of our total sales, respectively, for the six months ended June 30, 2020 and 2019, while pump-related supplies and accessories accounted for the remainder in each year. Our accumulated deficit as of June 30, 2020 and December 31, 2019 was $666.8 million and $624.8 million, respectively. These amounts included $265.2 million and $216.6 million of accumulated non-cash stock-based compensation charges and non-cash charges from the change in fair value of common stock warrants as of June 30, 2020 and December 31, 2019, 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 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, and post-market real-world data 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.

COVID-19 Global Pandemic Impact and Considerations

We are deemed an essential healthcare business under applicable governmental orders based on the critical nature of the products we offer and the community we serve. We experienced a modest impact from the COVID-19 global pandemic during the first quarter of 2020, which became more pronounced in the second quarter. We originally anticipated that our sales outside the United States may experience a greater proportional impact due to differences in the sales process in domestic versus international markets, but the impact was relatively consistent worldwide. We anticipate that our sales and operating results will continue to be adversely impacted for the duration of the pandemic. Additionally, certain programs originally planned to begin in the second quarter were delayed, such as human factors studies associated with our product development efforts. We recently commenced some of these studies in a limited fashion. The full extent of the impact of the COVID-19 global pandemic on our future business and operations is difficult to estimate and will depend on a number of factors including the scope and duration of the COVID-19 global pandemic.

We have taken steps to prioritize the health and safety of our employees and customers during the COVID-19 global pandemic, while working to maintain a continuous supply of products, training and customer support. To that end, we have increased the frequency of our communications to employees, suppliers, customers, and healthcare providers. Starting in March 2020, we restricted non-essential employee travel, banned visitors from all of our facilities, and transitioned those employees able to perform their job function outside of our facilities to a remote work environment. For our field-based sales and clinical employees, we initially discontinued all in-person activities and began utilizing technology to remotely engage healthcare providers and customers. We continue to work closely with our healthcare providers and customers, remaining flexible in our method of interaction. For our employees in manufacturing and warehousing positions involved in production and fulfillment operations, we implemented preventative measures to comply with social distancing requirements and have taken measures to help ensure safety, including requiring temperature checks for our employees before each shift.

In response to developments surrounding the COVID-19 global pandemic, we initiated discussions with our key suppliers in early 2020 regarding their abilities to fulfill existing orders, and we have continued to regularly assess their capacity. At this time, we believe many of our suppliers are deemed essential businesses under applicable governmental orders, and we have not experienced and do not anticipate disruption in our ability to manufacture insulin pumps and cartridges due to component procurement limitations. Our finished goods and raw material inventory for insulin pumps, as well as available manufacturing capacity, meet or exceed our target levels and position us well to respond to unforeseen disruptions in the near term.

In the first quarter of 2020, we observed customers purchasing cartridges and infusion sets at a higher rate than anticipated. We continue to focus on building up our inventory for finished cartridges and infusion sets to targeted levels. Near the end of the first quarter of 2020, our third-party cartridge manufacturer completed validation and commenced commercial-scale manufacturing to supplement our existing cartridge manufacturing capacity, which we believe will assist us in meeting product demand and allow us to build up inventory levels in line with our targets. In addition, our primary infusion set manufacturer continues to work through inventory constraints and we have asked some customers to accept substitutions of similar products to prevent delays in order fulfillment. We are carefully managing our pump supplies inventory while we work to overcome these temporary challenges.

Commercially, we have been communicating with our customers and healthcare providers through social media, direct email outreach and our website, in addition to the regular communications sent by our sales and clinical employees. We are also leveraging our technology platforms, such as our t:connect diabetes management application, to support healthcare providers as many of them are utilizing telehealth capabilities in their practices at increased levels. By the end of the first quarter of 2020, we expanded our remote new pump training offering to all customers who purchased a t:slim X2 insulin pump, and more recently have begun offering in-person trainings on a limited basis.

We are prudently managing our use of cash and completed a convertible debt financing in May 2020 to further strengthen our balance sheet. We believe that our total cash and investments on hand are sufficient to sustain our existing operations for at least the next 12 months from the date of this filing. In the meantime, we are focused on making necessary investments in the organization as originally planned to continue to progress against our long-term sales and profitability initiatives, including recruitment of key employees, advancement of our R&D pipeline, and implementation of technology solutions. We will continue to evaluate our business operations and strategy based on new information as it becomes available and we intend to make changes that we consider necessary in light of this information.

Products Under Development

Our products under development support our strategy of focusing on both consumer and clinical needs, and include a connected (mobile) health offering, a next-generation hardware platform, which we refer to as the t:sport Insulin Delivery System (t:sport), AID system enhancements, and additional CGM integrations with our current and future products. 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:

- *Connected (Mobile) Health Offerings* – In July of 2020 we began offering the first version of our t:connect mobile application that wirelessly uploads pump data to our cloud-based t:connect diabetes management application, receives notification of pump alerts and alarms, and provides a discrete, secondary display of glucose and insulin data. Future updates of our mobile application are planned to include mobile bolus delivery, additional pump control features, integrate other health-related information from third-party sources and support future capabilities for our products under development.

- *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.

- *AID Enhancements* – We intend to further enhance our automated insulin delivery system and are considering alternative strategies to deliver new features and benefits to our customers on a regular basis. In addition to algorithm enhancements intended to improve clinical outcomes, we are also developing new features for greater personalization and refinements to the overall system usability.

- *Additional CGM Integration* – In June 2020 we announced an agreement with Abbott to develop and commercialize integrated diabetes solutions that combine Abbott's CGM technology with our insulin delivery systems to provide more options for people to manage their diabetes. Following the completion of our integrated product development work, and required regulatory clearances or approvals, we intend to focus our initial commercial activities for integrated products in the U.S. and Canada, with additional geographies considered in the future.

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 domestically and internationally to be an important metric for managing our business.

In the four-year period ended June 30, 2020, we shipped approximately 169,000 insulin pumps, of which approximately 137,000 were shipped to customers in the United States and approximately 32,000 were shipped to international markets.

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
2020	13,158	14,735	N/A	N/A	27,893

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
2020	4,220	3,952	N/A	N/A	8,172

Trends Impacting Financial Condition and Operating 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, the commercial launch of our products in geographies outside of the United States and due to general seasonality in 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;
- incidence of disease or illness, including the COVID-19 global pandemic, that may impact customer purchasing patterns or disrupt our supply chain;
- 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, and factors impacting our ability to access our facilities;
- the impact of any privacy breaches, which may subject us to legal and regulatory proceedings and substantial fines, penalties and expenses, as well as significant reputational harm;
- 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:

- the disruptions caused by the COVID-19 global pandemic on suppliers, third-party manufacturers, healthcare providers, distributors and our existing or potential customers;
- continued increase, in demand following the commercial launch of t:slim X2 with Control-IQ technology, 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;
- opportunity to transition former customers of Animas Corporation (Animas) to our t:slim X2 insulin pump in 2018 and 2019 following the announcement by Johnson & Johnson that it had discontinued the operations of Animas and discontinued the 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 from July 2016 through June 2020;
- ability to enter into and maintain agreements with CGM partners for CGM integration;
- expansion and new product launches in select international geographies, including initial orders to stock inventories; 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, in the long-term 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

Expanded Pediatric Indication of the t:slim X2 Insulin Pump with Control-IQ Technology

In June 2020, we announced U.S. FDA clearance of an expanded pediatric indication for the t:slim X2 insulin pump with Control-IQ technology to children age six and older. The product was previously approved for ages 14 and older. Control-IQ technology is an advanced hybrid closed-loop feature designed to increase time in range (70-180 mg/dL).

Acquisition of Sugarmate

In June 2020, we acquired Sugarmate, a popular mobile app for people with diabetes who use insulin. The Sugarmate app (www.sugarmate.io) is designed to help people with diabetes visualize diabetes therapy data in innovative ways. It allows users to log glucose data and health and nutrition information, and can provide notifications and alerts to users, their family, and their caregivers.

Collaboration with Abbott

In June 2020, we announced that we finalized an agreement to develop and commercialize integrated diabetes solutions that combine Abbott Laboratories world-leading continuous glucose monitoring technology with our innovative insulin delivery systems to provide more options for people to manage their diabetes.

UnitedHealthcare

UnitedHealthcare issued a network bulletin that includes Tandem Diabetes Care, Inc. as a network provider, effective July 1, 2020.

Patent Cross-License Agreement with Medtronic

In July 2020, we announced that we entered into a non-exclusive patent cross-license agreement with Medtronic plc for certain technologies in the field of diabetes. With certain exclusions, this agreement applies to the companies' existing products, as well as new products for at least the next five years, and also includes a provision not to clone one another's products.

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 insulin pump platform with advanced software algorithms and remote software update capabilities, now represents 100% of our new pump shipments and is used by nearly all of our in-warranty customers. Our products also include disposable cartridges and infusion sets, as well as our complementary t:connect, Tandem Device Updater and mobile application products. We also offer additional 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, although the COVID-19 global pandemic has had, and may continue to have, an adverse impact on our sales.

In the third quarter of 2018, we began the launch of our t:slim X2 hardware platform through distribution partners outside the United States, including in select European countries, Australia, New Zealand, and South Africa. The software version on the t:slim X2 hardware platform has progressed from Dexcom G5 CGM integration at initial launch, followed by Basal-IQ technology scaling across various international markets beginning in the second quarter of 2019, and most recently we commenced the launch of our Control-IQ technology in limited geographies. Our launch of Control-IQ technology in international markets will scale through the remainder of 2020, contingent upon regulatory and reimbursement approvals.

In the first quarter of 2020, we expanded into additional international markets by delivering initial orders to support product launches in France and Germany occurring in the second and third quarters of 2020, respectively. Our independent international 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 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 these historical seasonality trends, our domestic pump shipments have typically decreased significantly from the fourth quarter to the following first quarter. Internationally, we do not expect this same impact from seasonality associated with reimbursement, although the quarterly sales trends may be impacted by a number of factors, including summer vacations and product launches into new geographies. While the opportunity to transition former Animas customers positively impacted our 2019 quarterly sales trends worldwide, we do not anticipate that this trend will continue to have a significant impact.

In the first half of 2020, the COVID-19 global pandemic had a major impact on businesses around the world. Although we experienced only a modest impact on our first quarter financial results, the impact in the second quarter was more pronounced. Starting in March 2020 we ceased nearly all in-person sales, marketing and training activities and adopted numerous other changes to our daily business operations. These changes primarily remain in effect as of the date of this report and it remains uncertain when we may be able to resume our normal operations. Accordingly, we anticipate that our sales will not follow historical trends and will be adversely impacted in the coming months as customers delay their purchasing decisions or physicians pause their prescriptions of new products. Our sales outside the United States have been negatively impacted due to similar disruptions. The full extent of the impact of the COVID-19 global pandemic on our business and operations will depend on a number of factors, including the depth and duration of the COVID-19 global pandemic.

Separate from any impacts of the COVID-19 global pandemic, our quarterly sales have historically 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 such FDA approval or product launch before making their purchasing decisions. For instance, we believe certain customers paused 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. Near the end of the first quarter of 2020, our third-party cartridge manufacturer completed validation and commenced commercial-scale manufacturing to supplement our existing cartridge manufacturing capacity. 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, royalties, freight, reserves for expected warranty costs, scrap and charges for 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 percentage than our pump-related supplies. Therefore, the percentage of pump sales relative to total sales will have a significant impact on our overall gross margin percentage. In the event that customers delay their pump purchasing decisions or physicians pause in prescribing new pumps, whether as a result of the COVID-19 global pandemic, or for other reasons, it is possible that we may experience a higher percentage of pump-related supply sales than anticipated, which in turn could adversely impact our overall gross margin percentage. 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 percentage may fluctuate in future quarterly periods as a result of numerous factors aside from those associated with production volumes and product mix. For instance, as a result of the COVID-19 global pandemic we have implemented operational changes that may introduce unpredictable variability to our cost of sales, such as supplemental staffing, incremental expenses to protect the health, safety and welfare of our employees working on-site and to enable other employees to work remotely. In addition, as demand for our products increases, we 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 our gross margins. Specifically, in 2020, we intend 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 percentage associated with our pump-related supplies.

Other factors impacting our overall gross margin percentage 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 and RSU awards 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 for our products. We had approximately 90 sales territories in the United States as of June 30, 2020. Our existing territories are generally maintained by sales representatives and field clinical specialists, and supported by managed care liaisons, additional sales management and other customer support personnel, which have also been rapidly expanding to support our growing installed base. Our operations in Canada are comprised of approximately 10 sales territories. 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, which was sustained through the first half of 2020, will begin to decline in future quarters. Our SG&A expenses may be affected by our response to the COVID-19 global pandemic, including reduced spending in areas such as non-essential employee travel, which may be offset by increased spending to support measures designed to prioritize the retention, health, safety and welfare of our employees. In the longer term, 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, cash-based incentive compensation, 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. Similar to our SG&A expenses, our future R&D spending may be impacted by the COVID-19 global pandemic. For instance, we may experience lower spending associated with delays in the advancement of particular programs, which may be offset by increased spending to support the retention, health, safety and welfare of our employees or to enable development activities under alternative conditions.

Other Income and Expense

Other income and expense primarily consists of changes in the fair value of certain warrants issued in connection with our public offering of common stock in October 2017, interest expense which includes the amortization of debt discount and debt issuance costs related to our Convertible Senior Notes issued in May 2020 (our Notes), and interest earned on our cash equivalents and short-term investments. We expect interest expense to increase in the third quarter of 2020 as our Notes will be outstanding for the entire period, and other income and expense to fluctuate from period to period primarily due to the revaluation of the outstanding Series A warrants, which expire in the fourth quarter of 2022.

Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except percentages)	**2020**	**2019**	**2020**	**2019**
Sales:				
Domestic	$ 89,277	$ 70,371	$ 168,823	$ 125,025
International	19,959	22,884	38,339	34,225
Total sales	109,236	93,255	207,162	159,250
Cost of sales	54,846	43,351	102,511	75,993
Gross profit	54,390	49,904	104,651	83,257
Gross margin	50%	54%	51%	52%
Operating expenses:				
Selling, general and administrative	50,440	40,565	100,157	75,524
Research and development	15,987	11,204	30,104	20,594
Total operating expenses	66,427	51,769	130,261	96,118
Operating loss	(12,037)	(1,865)	(25,610)	(12,861)
Other income (expense), net:				
Interest and other income	412	786	1,138	1,543
Interest and other expense	(3,221)	(9)	(3,221)	(16)
Change in fair value of common stock warrants	(14,336)	(424)	(16,258)	(13,170)
Total other expense, net	(17,145)	353	(18,341)	(11,643)
Loss before income taxes	(29,182)	(1,512)	(43,951)	(24,504)
Income tax benefit	(2,075)	—	(1,977)	—
Net loss	$ (27,107)	$ (1,512)	$ (41,974)	$ (24,504)

Comparison of the Three Months Ended June 30, 2020 and 2019

Sales. For the three months ended June 30, 2020, sales were $109.2 million, which included $20.0 million of international sales. Sales were $93.3 million for the same period in 2019, which included $22.9 million of international sales.

The increase in worldwide sales of $16.0 million in the second quarter of 2020 compared to the second quarter of 2019 was primarily driven by an increase in domestic sales of $18.9 million on higher pump shipments, offset by a decrease in international sales of $2.9 million associated with non-recurring market dynamics in the prior year.

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

	Three Months Ended June 30,	
	2020	2019
Pump	$ 56,367	$ 48,806
Infusion sets	22,536	14,735
Cartridges	10,196	6,710
Other	178	120
Total Domestic Sales	$ 89,277	$ 70,371

Domestic pump sales were $56.4 million for the second quarter of 2020, compared to $48.8 million in the second quarter of 2019, as pump shipments increased 15% compared to the same period in the prior year due to continued strong demand for our products following the January 2020 domestic launch of our t:slim X2 insulin pump with Control-IQ technology. Domestic pump shipments were 14,735 in the second quarter of 2020 compared to 12,799 in the second quarter of 2019. Sales of pump-related supplies increased primarily due to a 42% increase in our estimated domestic installed base of customers. Sales to distributors accounted for 71% and 74% of our total domestic sales for the three months ended June 30, 2020 and 2019, 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.

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

	Three Months Ended June 30,	
	2020	2019
Pump	$ 9,124	$ 16,955
Infusion sets	7,430	3,484
Cartridges	3,321	2,290
Other	84	155
Total International Sales	$ 19,959	$ 22,884

International pump sales were $9.1 million for the second quarter of 2020, compared to $17.0 million in the second quarter of 2019, which was positively impacted by the transition of former Animas customers to our products and the fulfillment of pump demand from backlog that existed at the end of 2018 due to supply constraints. Sales of pump-related supplies increased primarily due to an 81% increase in our estimated international installed base of customers. Sales to distributors accounted for 96% and 93% of our total international sales for the three months ended June 30, 2020 and 2019, respectively.

Cost of Sales and Gross Profit. Our cost of sales for the three months ended June 30, 2020 was $54.8 million, resulting in gross profit of $54.4 million, compared to cost of sales of $43.4 million for the same period in 2019 resulting in gross profit of $49.9 million. The gross margin percentage for the three months ended June 30, 2020 was 50%, compared to 54% in the same period in 2019.

The increase in our gross profit for the three months ended June 30, 2020 was primarily the result of the $16.0 million increase in total sales. Gross profit and gross margin were negatively impacted by an increase in royalty and stock-based compensation costs, and to a lesser extent, costs associated with retaining incremental direct labor employees for risk mitigation in the COVID-19 environment, the expansion of cartridge manufacturing capacity and increased spending to support our digital health product offerings. These cost increases were partially offset by an increase in pump average selling prices. We recognized $1.7 million of product royalty costs in the second quarter of 2020 associated with sales of products with Control-IQ technology and free software updates offered to customers in the United States. Non-cash stock-based compensation expense allocated to cost of sales was $2.2 million for the three months ended June 30, 2020, compared to $1.3 million in the same period in 2019. Additionally, per unit overhead manufacturing costs for pumps increased in the second quarter of 2020 due to the differing sales dynamics compared to the same period in 2019. In 2019, pumps were being manufactured at a significantly higher rate to fulfill the existing backlog and increase inventory to desired stocking levels. In 2020, production levels declined from lower sales demand attributable to the COVID-19 global pandemic. The gross margin percentage was also pressured by changes in product mix from these sales dynamics. Pump sales, which have the highest gross margin, were 60% of total sales in the second quarter of 2020 versus 71% in the second quarter of 2019.

Selling, General and Administrative Expenses. SG&A expenses increased 24% to $50.4 million for the three months ended June 30, 2020 from $40.6 million for the same period in 2019. Employee-related expenses for our SG&A functions comprise the majority of SG&A expenses. The increase compared to 2019 was primarily the result of a $9.3 million increase in salaries, incentive compensation and other employee benefits due to an increase in personnel to support additional sales territories, higher sales and other services in support of our growing installed customer base, which included an increase of $2.7 million in non-cash stock-based compensation. Non-cash stock-based compensation expense allocated to SG&A was $11.7 million for the three months ended June 30, 2020, compared to $9.0 million in the same period in 2019. The increase in non-cash stock-based compensation expense was primarily due to the valuation of certain 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 software maintenance, facilities maintenance, and outside consulting of $2.1 million, offset by a $1.2 million decrease in travel and entertainment, supplies and outside services expenses.

Research and Development Expenses. R&D expenses increased 43% to $16.0 million for the three months ended June 30, 2020 from $11.2 million for the same period in 2019. The increase in R&D expenses was primarily the result of an increase of $2.3 million in salaries, incentive compensation and other employee benefits due to an increase in personnel to support our product development efforts, as well as an increase of $2.3 million in outside services, consulting services and equipment and maintenance costs attributable to R&D. Non-cash stock-based compensation expense allocated to R&D was $2.6 million for the three months ended June 30, 2020, compared to $2.1 million in the same period in 2019.

Other Income and Expense. Total other expense for the three months ended June 30, 2020 was $17.1 million compared to total other income of $0.4 million in the same period in 2019. Other expense for the three months ended June 30, 2020 primarily consisted of a $14.3 million revaluation loss from the change in the fair value of certain warrants due to the significant appreciation of our stock price, and $3.2 million of interest expense which includes the amortization of debt discount and debt issuance costs related to our Notes issued in the second quarter of 2020. Other income for the three months ended June 30, 2019 primarily consisted of interest earned on our cash equivalents and short-term investments, offset by a $0.4 million revaluation loss from the change in the fair value of certain warrants.

Comparison of the Six Months Ended June 30, 2020 and 2019

Sales. For the six months ended June 30, 2020, sales were $207.2 million, which included $38.3 million of international sales. For the six months ended June 30, 2019, sales were $159.3 million, which included $34.2 million of international sales.

The increase in worldwide sales of $47.9 million in the first half of 2020 compared to the first half of 2019 was primarily driven by $43.7 million in pump-related supplies sales from a 48% growth in the worldwide installed base and an increase in domestic pump sales of $20.4 million, offset by the effect of international product mix and non-recurring market dynamics in the prior year.

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

	Six Months Ended June 30,	
	2020	2019
Pump	$ 106,086	$ 85,709
Infusion sets	42,750	26,689
Cartridges	19,651	12,381
Other	336	246
Total Domestic Sales	$ 168,823	$ 125,025

Domestic pump sales were $106.1 million for the first half of 2020, compared to $85.7 million in the first half of 2019, as pump shipments increased 24% compared to the same period in the prior year due to continued strong demand for our products following the January 2020 domestic launch of our t:slim X2 insulin pump with Control-IQ technology. Domestic pump shipments were 27,893 in the first half of 2020 compared to 22,468 in the first half of 2019. Sales of pump-related supplies increased primarily due to a 42% increase in our estimated domestic installed base of customers. Sales to distributors accounted for 70% and 74% of our total domestic sales for the six months ended June 30, 2020 and 2019, 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.

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

	Six Months Ended June 30,	
	2020	2019
Pump	$ 18,940	$ 26,161
Infusion sets	13,676	4,781
Cartridges	5,553	3,112
Other	170	171
Total International Sales	$ 38,339	$ 34,225

International pump sales were $18.9 million for the first half of 2020, compared to $26.2 million in the first half of 2019, which was positively impacted by the transition of former Animas customers to our products, and the fulfillment of certain international pump demand from backlog that existed at the end of 2018 due to supply constraints in prior periods. Sales of pump-related supplies increased primarily due to an 81% increase in our estimated international installed base of customers. Sales to distributors accounted for 95% and 95% of our total international sales for the six months ended June 30, 2020 and 2019, respectively.

Cost of Sales and Gross Profit. Our cost of sales for the six months ended June 30, 2020 was $102.5 million resulting in gross profit of $104.7 million, compared to $76.0 million of cost of sales for the same period in 2019 resulting in gross profit of $83.3 million. The gross margin percentage for the six months ended June 30, 2020 was 51% compared to 52% in the same period in 2019.

The increase in our gross profit for the six months ended June 30, 2020 was primarily the result of the $47.9 million increase in total sales. Gross profit and gross margin were primarily impacted by an increase in royalty and stock-based compensation costs, partially offset by an improvement in other per unit manufacturing costs, as well as other non-manufacturing costs which primarily consist of warranty, freight and training. We recognized $3.0 million of product royalty costs in the first six months of 2020 associated with the first quarter launch of Control-IQ technology in the United States. Additionally, non-cash stock-based compensation expense allocated to cost of sales was $4.3 million for the six months ended June 30, 2020, compared to $2.4 million in the same period in 2019. The gross margin percentage was also pressured by changes in product mix compared to the same period of the prior year. Pump sales, which have the highest gross margin, were 60% of total sales in the first six months of 2020 compared to 70% in the same period in 2019.

Selling, General and Administrative Expenses. SG&A expenses increased 33% to $100.2 million for the six months ended June 30, 2020 from $75.5 million for the same period in 2019. Employee-related expenses for our SG&A functions comprise the majority of SG&A expenses. The increase compared to 2019 was primarily the result of a $21.1 million increase in salaries, incentive compensation and other employee benefits due to an increase in personnel to support additional sales territories, higher sales and our growing installed customer base, which included an increase of $7.2 million in non-cash stock-based compensation. Non-cash stock-based compensation expense allocated to SG&A was $23.2 million for the six months ended June 30, 2020, compared to $16.0 million in the same period in 2019. The increase in non-cash stock-based compensation expense was primarily due to the valuation of certain 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 equipment and supplies, outside consulting and outside services of $3.6 million.

Research and Development Expenses. R&D expenses increased 46% to $30.1 million for the six months ended June 30, 2020 from $20.6 million for the same period in 2019. The increase in R&D expenses was primarily the result of an increase of $4.4 million in salaries, incentive compensation and other employee benefits due to an increase in personnel to support our product development efforts, as well as an increase of $5.1 million in outside services, consulting services and equipment and maintenance costs attributable to R&D. Non-cash stock-based compensation expense allocated to R&D was $4.8 million for the six months ended June 30, 2020, compared to $3.8 million in the same period in 2019.

Other Income and Expense. Total other expense for the six months ended June 30, 2020 and 2019 was $18.3 million and $11.6 million, respectively. Other expense for the six months ended June 30, 2020 primarily consisted of a $16.3 million revaluation loss from the change in the fair value of certain warrants due to the significant appreciation of our stock price during the first six months of 2020, and $3.2 million of interest expense which includes the amortization of debt discount and debt issuance costs related to our Notes issued in the second quarter of 2020. Other expense for the six months ended June 30, 2019 primarily consisted of a $13.2 million revaluation loss from the change in the fair value of certain warrants. Interest and other income for the six months ended June 30, 2020 and 2019 primarily consisted of interest earned on our cash equivalents and short-term investments.

Liquidity and Capital Resources

As of June 30, 2020, we had $426.3 million in cash and cash equivalents and short-term investments. We believe that our cash and cash equivalents and short-term investments balance is 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 cash collected from product sales, private and public offerings of equity securities, and debt financing. Since the beginning of 2019, we completed the following financing activities:

- In May 2020, we raised $278.7 million in net proceeds from the issuance of the Notes, and used $34.1 million of the net proceeds to purchase capped call options in connection with the transaction (see Note 7, “Convertible Senior Notes”).
- From January 2019 through June 2020, we issued 2,545,440 shares of common stock upon the exercise of stock options, and 558,392 shares of common stock were purchased under our 2013 Employee Stock Purchase Plan, which generated aggregate proceeds of $52.5 million.
- From January 2019 through June 2020, we received proceeds of $0.3 million from the exercise of 95,585 outstanding warrants which were originally issued in connection with our registered public offering of common stock in October 2017. As of June 30, 2020, there were warrants to purchase 415,200 shares outstanding relating to the October 2017 offering.
- From January 2020 through June 2020, we received proceeds of $2.0 million from the exercise of 67,799 outstanding warrants which were originally issued between August 2011 and August 2012. As of June 30, 2020, there were warrants to purchase 31,166 shares outstanding relating to these issuances.

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.

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. In light of the COVID-19 global pandemic, we are prudently managing our use of cash. We will continue to evaluate new information as it becomes available and make changes as are considered necessary.

The following table shows a summary of our cash flows for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30,	
(in thousands)	**2020**	**2019**
Net cash provided by (used in):		
Operating activities	$ (5,132)	$ (556)
Investing activities	(98,605)	(13,883)
Financing activities	275,303	10,755
Effect of foreign exchange rate changes on cash	(262)	15
Total	$ 171,304	$ (3,669)

Operating Activities. Net cash used in operating activities was $5.1 million for the six months ended June 30, 2020, compared to $0.6 million in the same period in 2019. The increase in net cash used in operating activities was primarily driven by an increase in net loss, driven by increased operating expenses, particularly SG&A expenses and research and development. Working capital changes during the first half of 2020 primarily consisted of an increase in inventories, as decreases in accrued expenses and employee-related liabilities were substantially offset by increases in deferred revenue and other current liabilities. Accounts receivable decreased to $45.0 million at June 30, 2020 from $46.6 million at December 31, 2019, primarily due to the timing of sales and collections. Inventories increased to $62.3 million at June 30, 2020 from $49.1 million at December 31, 2019, primarily to support the growth in our business.

Investing Activities. Net cash used in investing activities was $98.6 million for the six months ended June 30, 2020, which was primarily related to $167.0 million of purchases of short-term investments, $16.6 million in purchases of property and equipment, and $4.8 million cash paid for the acquisition of intangible assets, offset by $89.7 million in proceeds from maturities and sales of short-term investments. Net cash used in investing activities was $13.9 million for the six months ended June 30, 2019, which was primarily related to $74.2 million of purchases of short-term investments and $8.2 million in purchases of property and equipment, offset by $68.5 million in proceeds from maturities and sales of short-term investments.

Financing Activities. Net cash provided by financing activities was $275.3 million for the six months ended June 30, 2020, which primarily consisted of $278.7 million in proceeds from the issuance of the Convertible Senior Notes which was partially offset by $34.1 million in payments related to the Capped Call Options, and $28.6 million in proceeds from the issuance of common stock under our stock plans. Net cash provided by financing activities was $10.8 million for the six months ended June 30, 2019, which primarily consisted of proceeds from the issuance of common stock under our stock plans.

Our liquidity position and capital requirements are subject to fluctuation based on a number of factors, including 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;
- fluctuations in working capital, including changes in accounts receivable, inventories, accounts payable, employee-related liabilities, and operating lease liabilities; and
- the impacts and disruptions caused by the COVID-19 global pandemic.

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, leasing or licensing 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, uncertainties regarding the regulatory environment in which we operate and conditions impacting the capital markets more generally, including economic weakness, inflation, political instability, war and terrorism, natural disasters, incidence of illness or disease, or other events beyond our control.

Critical Accounting Policies

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 of America (U.S. GAAP). 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 and accompanying notes as of the date of the 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 from these estimates.

There have been no material changes to our critical accounting policies and estimates from the information provided in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies Involving Management Estimates and Assumptions,” included in our Annual Report on Form 10-K for the year ended December 31, 2019, with the exception of policies put in place with regards to the Convertible Senior Notes.

Off-Balance Sheet Arrangements

As of June 30, 2020, we did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We invest our excess cash primarily in commercial paper, corporate debt securities, U.S. Government-sponsored enterprise securities and U.S. Treasury securities. 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.

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. As a result of the COVID-19 global pandemic and the perceived increased credit risks associated with certain securities, credit rating agencies have issued downgrades and revised outlooks to negative for a number of issuers of the debt securities held in our short-term investments portfolio. Unrealized losses on available-for-sale debt securities at June 30, 2020 were not significant. Based on the credit quality of the available-for-sale debt securities that are in an unrealized loss position, and our current estimates of future cash flows to be collected from those securities, the Company believes the unrealized losses are not credit losses (see Note 3, "Short-Term Investments").

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 June 30, 2020, this change would not have had a material effect on the fair value of our investment portfolio as of that date.

In May 2020, the Company issued $287.5 million principal amount of Convertible Senior Notes, which bear interest at a fixed rate of 1.50% per year. Accordingly, the Company is not subject to interest rate risk as a result of the Convertible Senior Notes (see Note 7, "Convertible Senior Notes").

Foreign Currency Exchange Rate Risk

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 material 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 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act) that are designed to ensure that information required to be disclosed in the periodic and current reports we file with the Securities and Exchange Commission (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 for timely decisions regarding required disclosure. In designing and evaluating the disclosure 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 is required to apply its judgment in evaluating the cost-benefit relationship of possible 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. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As of June 30, 2020, 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. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the quarter ended June 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In April 2020, we were named as a defendant in four federal class action lawsuits, each of which was subsequently dismissed. Each one was brought in response to a data breach we experienced in January 2020. The four dismissed lawsuits are as follows:

- On April 1, 2020, *C.H., individually, and on behalf of all others similarly situated v. Tandem Diabetes Care, Inc.* was filed against us in the Southern District of the United States District Court. The complaint alleged negligence and violations of the California Confidentiality of Medical Information Act (CMIA). Plaintiff filed a Notice of Voluntary Dismissal on May 22, 2020.
- On April 8, 2020, *Joseph Deluna, on behalf of himself and all others similarly situated v. Tandem Diabetes Care, Inc.* was filed against us in the Central District of the United States District Court. The complaint alleged negligence and violations of the CMIA and the Federal Trade Commission Act (FTCA). Plaintiff filed a Notice of Voluntary Dismissal on May 22, 2020.
- On April 16, 2020, *Jose Lopez, individually and on behalf of all others similarly situated v. Tandem Diabetes Care, Inc.* was filed against us in the Southern District of the United States District Court. The complaint alleged negligence and violations of the FTCA, CMIA, California's Unfair Competition Law (UCL), California's Consumer Record Act, and the California Consumer Privacy Act of 2018 (CCPA). This complaint also alleged that the security incident created a breach of contract and a breach of the implied covenant of good faith and fair dealing. Plaintiff filed a Notice of Voluntary Dismissal on May 22, 2020.
- On April 16, 2020, *Samantha Henrichsen, and her minor son, A.R., individually, and on behalf of all others similarly situated v. Tandem Diabetes Care, Inc.* was filed against us in the Southern District of the United States District Court. The complaint alleged negligence and violations of the CMIA, the Illinois Consumer Fraud and Deceptive Business Practices Act, and the Illinois Uniform Deceptive Trade Practices Act. This complaint also alleged that the security incident created a breach of contract. Plaintiffs filed a Notice of Voluntary Dismissal on May 22, 2020.

We have been named as a defendant in three California state court class action lawsuits arising from the data breach we experienced in January 2020. Collectively, these lawsuits seek statutory, compensatory, actual, and punitive damages; equitable relief, including restitution; pre- and post-judgment interest; injunctive relief; and attorney fees, costs, and expenses from us. The three pending lawsuits are as follows:

- On May 8, 2020, *Stephanie Matthews, individually and on behalf of all others similarly situated vs. Tandem Diabetes Care, Inc.* was filed against us in the Superior Court of the State of California for the County of Sacramento. The complaint alleged violations of the CMIA and UCL.
- On May 22, 2020, *Joseph Deluna, Conor Soraghan, Salvador Rodriguez, individually, and on behalf of all others similarly situated vs. Tandem Diabetes Care, Inc.* was filed against us in the Superior Court of the State of California for the County of San Bernardino. The complaint alleged violations of the CMIA, CCPA, UCL, and breach of contract.
- On May 27, 2020, *Jane Doe 1, individually and on behalf of all others similarly situated vs. Tandem Diabetes Care, Inc.* was filed against us in the Superior Court of the State of California for the County of Kings. A First Amended Complaint (FAC) was filed on June 12, 2020. The FAC alleged violations of the CMIA, UCL, and CCPA.

Although we intend to vigorously defend against these claims, there is no guarantee that we will prevail. Accordingly, we are unable to determine the ultimate outcome of these lawsuits or determine the amount and range of potential losses associated with the lawsuits.

From time to time, we are involved in various other legal proceedings, disputes and other claims arising in the ordinary course of our business, including actions with respect to intellectual property, data privacy, employment, product liability and contractual matters. Although the results of legal proceedings, disputes and other claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not, individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations, cash flows or future prospects. However, regardless of the outcome, legal proceedings, disputes and other claims can have an adverse impact on us because of legal costs, diversion of management time and resources, and other factors.

Item 1A. Risk Factors

An investment in our common stock or in other convertible securities involves risks. You should carefully consider the risks described below, together with all of the other information included in this Quarterly 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 future prospects. Certain statements below are forward-looking statements.

The risk factors set forth below marked with an asterisk (*) next to the title contain changes to the description of the risk factors previously disclosed in Part I, Item IA of our Annual Report.

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 June 30, 2020, we had an accumulated deficit of $666.8 million. To date, we have funded our operations primarily through cash collected from product sales, private and public offerings of our equity securities, and debt financing. 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 insulin pump now represents 100% of new pump shipments. Until the third quarter of 2018 we were selling our products only in the United States and have since launched our products in select international geographies.

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 R&D 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, the timing of regulatory approval of our products and the products of our competitors, and the scope and duration of the impacts caused by the COVID-19 global pandemic. 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;
- 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. We believe the COVID-19 global pandemic has had and may continue to have a material adverse impact on sales of our products as it could result in customers delaying their purchasing decisions or physicians pausing prescriptions for our products. It could also have the effect of magnifying the negative impact of any of the factors described above.

Public health threats, such as the COVID-19 global pandemic, have had and could continue to have a material adverse effect on our operations, the operations of our business partners, and the global economy as a whole.*

Public health threats and other highly communicable diseases and outbreaks could adversely impact our operations, the operations of our customers, suppliers, distributors and other business partners, as well as the healthcare system in general. For example, the COVID-19 global pandemic, which is currently affecting numerous countries throughout the world, has resulted in a rapid rise in unemployment and a sudden decrease in global economic activity, and the scope of the COVID-19 global pandemic and its impacts is continuing to fluctuate, and in some instances worsen, in various regions worldwide. While we experienced only a modest negative impact from the COVID-19 global pandemic during the first quarter of 2020, the negative impact during the second quarter of 2020 was more pronounced, and we anticipate that our sales and operating results will continue to be adversely impacted in future periods. In addition, the recent rise in unemployment and decrease in economic activity due to the COVID-19 global pandemic may negatively impact the affordability of our products for certain customers, which could reduce demand for our products. Further, the initiation of certain programs originally planned for the second and third quarter, such as human factors studies associated with our product development efforts, have been delayed, which could have a negative impact on our product commercialization efforts and the future demand for our products.

The COVID-19 global pandemic, or other similar outbreaks or epidemics, may have an adverse effect on the overall productivity of our workforce, and we may be required to take extraordinary measures to protect the health and safety of our employees and our business partners and reduce the risk of disruptions to our operations. For example, starting in March 2020, we restricted non-essential employee travel, banned visitors from all of our facilities, and transitioned those employees able to perform their job function outside of our facilities to a remote work environment. For our field-based sales and clinical employees, we initially discontinued all in-person activities and began utilizing technology to remotely engage healthcare providers and customers. Where permitted, in-person activities have resumed, though the scope and scale have been limited and we still rely heavily on remote engagement. For our employees in manufacturing and warehousing positions involved in production and fulfillment operations, we have implemented preventative measures to comply with physical distancing requirements and have taken measures to help ensure safety, including requiring temperature checks for our employees before each shift. We have also increased our staffing in certain operations in order to mitigate potential risks associated with increases in unplanned employee absences or illness. Our adoption of these preventive measures has resulted in incremental costs that have negatively impacted our gross margin, and the impacts could be greater in future periods. In addition, for the duration of the COVID-19 global pandemic, our employees may be required to continue to operate within a remote work environment for extended periods of time due to illness, travel restrictions, government-imposed orders, school closures or for other reasons, any of which could result in reduced productivity of our workforce.

In addition to the foregoing impacts, disruptions from the COVID-19 global pandemic, or other similar outbreaks or epidemics, could result in delays in or the suspension of our manufacturing operations, research and product development activities, regulatory work streams, clinical development programs and other important commercial functions. In particular, if we were required to delay or suspend our manufacturing operations, we may encounter severe product shortages, which would adversely affect our results of operations and harm our reputation. We are also dependent upon our third-party suppliers for many of our product components, and the COVID-19 global pandemic could have a material adverse impact on the operations of one or more of our suppliers, which could prevent them from delivering products to us on a timely basis, or at all. For example, our current inventory level for insulin cartridges is below targeted levels and there is no guarantee that we or our third-party cartridge manufacturer will be able to manufacture cartridges in the quantities we require to rebuild inventories or meet product demand. In addition, our primary infusion set manufacturer is currently working through inventory constraints and there is no guarantee it will be able to provide infusion sets in the quantities we require. If these or similar manufacturing challenges persist, it could have a negative impact on product sales and harm our reputation.

The full extent of the impact of the COVID-19 global pandemic on our business and operations is highly uncertain and subject to change, and will continue to depend on a number of factors, including the scope and duration of the COVID-19 global pandemic. We expect any further spread of the COVID-19 global pandemic, or even the threat or perception that this could occur, or any protracted duration of decreased economic activity, could have a material adverse impact on our business, operations and financial 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 our 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, product development or commercialization delays, the impacts and disruptions caused by the COVID-19 global pandemic, or for other reasons.

Further, the COVID-19 global pandemic has resulted in substantial restrictions on our engagement efforts with customers and healthcare providers, including through the cancellation or postponement of Company-sponsored educational events, as well as third-party conferences, trade shows and similar events. These restrictions are likely to negatively impact our ability to promote our new products and features to customers and healthcare providers, which could adversely impact our product sales and customer retention rates, as well as the strength of our brand.

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 multiple daily injection (MDI) therapy.

Our primary competitors are major medical device companies that are 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, regulatory uncertainty, or challenges within the financial markets;
- 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 R&D, 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 CGM technology, and another CGM product with CE Mark approval was approved in the second quarter of 2018 for sale in the United States. In June 2020, we entered into an agreement with Abbott to develop and commercialize integrated diabetes solutions. There can be no assurance that our collaboration with Abbott will be successful or that we will not experience unanticipated challenges or delays. Competitive pressures within our industry, as well as the impacts and disruptions associated with the COVID-19 global pandemic 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, 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. We anticipate that customers may delay their purchasing decisions, or physicians may pause prescriptions of our products, as a result of the COVID-19 global pandemic.

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 the Centers for Medicare and Medicaid Services (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. Effective January 1, 2020, in addition to the existing reimbursement code for insulin pumps, CMS established additional reimbursement codes for insulin pumps with AID and CGM integration and associated supplies. In light of complexities surrounding use and payment of the codes, CMS subsequently determined the new codes will not be valid for Medicare submission at this time. It is also possible that CMS may continue to 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. Further, it is possible that some third-party payors will not offer any coverage for our current or future products. For instance, it is possible that third-party payors may adopt policies in the future that designate one or more of our competitors as their preferred, in-network durable medical equipment provider of insulin pumps and that such policies would discourage or prohibit the payors' members from purchasing our products, which would adversely impact our ability to sell our products.

We currently have contracts establishing reimbursement for our insulin pump products with a number of 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.

In addition, due to the current COVID-19 global pandemic, starting in March 2020 we temporarily discontinued in-person activities for our field-based sales and clinical employees and are utilizing technology to remotely engage healthcare providers and customers. While we have authorized limited in-person activities to resume, many restrictions persist that have been imposed by state and local governments, as well as by the health systems and professional organizations with which we interact. The duration of these restrictions on our field-based employees remains highly uncertain, and it is difficult to predict the extent of any adverse impacts on the demand for our products resulting from these restrictions.

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 continue to be restricted in their ability to interact with healthcare providers and customers, 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, marketing, clinical 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 sales territories. We expect to continue to face significant challenges as we seek to further increase the number of our sales, clinical and customer service personnel in order to optimize the coverage of our existing sales territories, as well as expand the number and scope of our existing sales territories. 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 oversight of our sales, marketing, clinical and customer service personnel will continue to place significant burdens on our management team. These burdens may be even higher while we seek to manage and expand a remote workforce during the duration of the COVID-19 global pandemic. 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 in 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, which represent only a small percentage of the overall insulin-dependent diabetes market. As a result, the responses we receive 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 such market research responses 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. The significant uncertainty resulting from the COVID-19 global pandemic will make it more difficult for us to accurately forecast our financial results and achieve sustained 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, marketing, clinical 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.

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 charges for 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 supervision and management. Our warranty reserve requires 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 and the launch of our mobile app also may result in unanticipated changes in historical trends.

In response to the COVID-19 global pandemic, we have taken steps to prioritize the health and safety of our employees and customers, while working to maintain a continuous supply of products, training and customer support. For example, we have implemented preventative safety measures for our employees involved in production and fulfillment operations as well as for any field-based employees. For employees in other functions, we have adopted measures designed to help employees remain effective in a work-from-home environment. We have also increased our staffing in certain operations in order to mitigate potential risks associated with increases in unplanned employee absences or illness. Each of these measures has resulted in unanticipated expenses that will negatively impact our gross margin and may adversely impact our ability to achieve profitability. We may also incur additional incremental expenses to help us support our ongoing operations during a period of unpredictable variability in the demand for our products, including throughout the duration of the COVID-19 pandemic.

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, alter our product mix, result in our sales growing at a slower rate than we expect, or result in the closure of our manufacturing facilities, would significantly impact our expected per unit costs, which would adversely impact our gross margins. Further, 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;
- government-mandated or voluntary closures of our manufacturing facilities; 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.

In response to the COVID-19 global pandemic, in early 2020 we initiated discussions with our key suppliers regarding their abilities to fulfill existing orders and we have continued to regularly assess their capacity. While we do not currently anticipate a significant disruption in our ability to manufacture insulin pumps and cartridges, our inventory for finished cartridges and infusion sets is below our targeted level and there is no guarantee that our third-party cartridge manufacturer will be able to manufacture cartridges in the quantities we require to rebuild inventories or meet product demand. In addition, our primary infusion set manufacturer is currently working through inventory constraints and we have asked some customers to accept substitutions of similar products to prevent delays in order fulfillment. While we are managing our inventory of cartridge and infusion set supplies, if these or similar manufacturing challenges persist, it could have a negative impact on product sales and harm our reputation.

If we and our suppliers 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 in China and Mexico. Depending on a limited number of suppliers exposes us to risks, including limited control over costs 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. These risks associated with the procurement of critical components from a limited number of suppliers may be increased as a result of the COVID-19 global pandemic. 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 expect it will be particularly difficult to accurately forecast demand during the global pandemic.

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-lock connector that historically joined an infusion set to our proprietary disposable insulin cartridges. Concurrently, we began selling infusion sets that are compatible with our t:lock connector. Starting in 2018, we initially offered standard luer-lock 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-lock 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-lock 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-lock 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, R&D 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. In the second half of 2019, we commenced 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 a facility located on Barnes Canyon Road in San Diego, 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 outsourced a portion of our cartridge manufacturing demand to an experienced third-party contract manufacturer. 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. Further, 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 or other licenses of intellectual property rights. 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 2021 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 office facilities 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 information relating to our customers, suppliers, employees or other individuals, 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 our t:connect uploader software and cloud-based web application, 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, cyber-attacks, 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, cyber-attacks and ransomware attacks, as well as the risk that one or more of our employees may fail to comply, whether knowingly or accidentally, with established security measures, or with internal policies relating to use, storage or transmission of confidential or sensitive information. We are unable to predict the direct or indirect impact of any such incidents to our business. Further, 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.

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.

We experienced a breach of our information technology systems in January 2020.*

On January 17, 2020, we learned that an unauthorized person gained access to an employee's email account through a cyber-attack commonly known as "phishing." We investigated the incident, and learned that a limited number of our employee email accounts may have been accessed by an unauthorized user in a similar manner between January 17, 2020 and January 20, 2020. Our continued investigation indicated that customer information, as well as proprietary Company information, may have been contained in one or more of the employee email accounts affected by the incident. Our investigation has not determined whether an unauthorized person viewed any such information. As a result of this incident, we have been named a defendant in three California state court putative class action lawsuits that we are aware of. The risks posed by these lawsuits include civil monetary damages, attorney fees and costs, other legal penalties, reputational damage, loss of goodwill, and competitive harm.

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. These laws include the U.S. Health Insurance Portability and Accountability Act of 1996 (HIPAA) and related regulations, U.S. state laws, Canada's Personal Information and Electronic Documents Act (PIPEDA) or the applicable provincial alternatives, the EU's General Data Protection Regulation (GDPR), EU member states directives, 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. The putative class action lawsuits described above allege violations of some of these laws.

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, GDPR, or applicable U.S. state and Canadian provincial laws, 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 or Canadian provinces, 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 Foreign Corrupt Practices Act;
- 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, including as a result of the COVID-19 global pandemic.

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 and completed acquisitions both 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 comply with regulatory requirements or other compliance matters.

We may experience one more or of those risks in connection with our recent acquisition of Sugarmate. We do not know if we will be able to identify future 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 June 30, 2020, we had $426.3 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 size of our facility footprint due to increasing headcount and additional R&D 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, marketing, clinical and customer service 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;
- unanticipated general and administrative expenses; and
- impacts and disruptions resulting from geopolitical actions, including war and terrorism, natural disasters, or incidence of disease, including as a result of the impacts from the COVID-19 global pandemic.

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.

Each of these factors may be negatively impacted by the COVID-19 global pandemic, which could have the effect of causing greater fluctuations in our operating results in future periods.

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 June 30, 2020, our patent portfolio consisted of approximately 95 issued U.S. patents and 69 pending U.S. patent applications. Of these, our issued U.S. patents expire between approximately 2021 and 2038. We are also seeking patent protection for our proprietary technologies in other countries throughout the world. In addition, we also have 41 trademark registrations, including 18 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 counterparties, 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 pre-market approval (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.

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 legal and regulatory requirements may result in our incurring significant costs and expenditures. We have limited experience complying with applicable laws and regulations in international markets generally, and in particular when we enter new markets, 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 or suspension of our products, or the discovery of serious safety issues with our products, could have a significant negative impact on us.*

The FDA and equivalent foreign regulatory authorities have the authority to require the recall or suspension, either temporarily or permanently, of commercialized products in the event of material deficiencies or defects in quality systems, product design or manufacture or in the event that a product poses an unacceptable risk to health. Regulatory authorities have broad discretion to require the recall or suspension 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 or suspend sales if any material deficiency in a product is found or alert customers of unanticipated safety risks. A government-mandated or voluntary recall or suspension 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, suspensions or other 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 and equivalent regulations in other geographies, we are required to maintain appropriate quality systems and report incidents 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 or suspension of product sales, 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. We have initiated product recalls in the past, and our risk of future product recalls may increase as we launch new products or offer new software updates for existing products.

Any adverse event involving any products that we distribute, either domestically or internationally, 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. For example, we recently received a notice from regulatory authorities in Australia proposing to suspend the sale of our products. Although we provided a response to this inquiry, it is possible that the Australian regulatory authority will not agree that our existing quality systems are adequate or that our products are safe and effective for their intended purpose and we may be forced to suspend our product sales in Australia or take other corrective actions. Any corrective action, whether voluntary or involuntary, will require the dedication of our time and capital, distract management from operating our business, may harm our reputation and financial results or could result in additional regulatory scrutiny in other geographies.

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 (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 (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 imposed, 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, starting January 1, 2013. In December 2019, the medical device excise tax was repealed. Prior to the repeal, the tax had been suspended for calendar years 2016, 2017, 2018 and 2019. As a result of the repeal and the prior moratorium, sales of taxable medical devices after December 31, 2015, are not subject to the tax. We do not believe that our products were 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 (IRS) and the IRS may disagree with our analysis. Additionally, Congress could enact future legislation or further change the law related to the medical device tax in a manner that could adversely affect us. The financial impact such taxes could have on our business is unclear and there can be no assurance that our business would not be materially adversely affected.

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, including the impacts and disruptions caused by the COVID-19 global pandemic.

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 (2017 Tax Act) which significantly reforms the Internal Revenue Code of 1986, as amended (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 (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.

In response to the COVID-19 global pandemic, The CARES Act was enacted on March 27, 2020, to provide aid and economic stimulus to the economy. Among other provisions, the CARES Act eliminates the 80% NOL limitation for tax years 2018, 2019, and 2020, and allows NOLs generated in those years to be carried back for five years. Due to the recent enactment of the CARES Act, we are currently unable to quantify the impact that the CARES Act will have on our financial position, results of operations or cash flows, although we do not anticipate the impact to be significant.

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.

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.

Risks Related to our Notes

We have indebtedness in the form of convertible senior notes, which could adversely affect our financial condition and our ability to respond to changes in our business.*

In May 2020, we completed the offering of $287.5 million principal amount of 1.50% Convertible Senior Notes due 2025, which we refer to as the Note Offering. Holders of the Notes will have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the indenture governing the Notes) at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion, we will be required to make cash payments in respect of the Notes being converted. Furthermore, the indenture governing the Notes provides that, in the event of an event of default (as defined in the indenture) for the Notes, it may result in the principal, premium, if any, and interest, if any, becoming due prior to the maturity date for the Notes. There can be no assurance that we will be able to pay these amounts when due, or that we will be able to refinance this indebtedness on acceptable terms or at all.

As a result of our increased level of indebtedness after the completion of the Notes Offering:

- our level of vulnerability to adverse economic conditions and competitive pressures will be heightened;
- we will be required to dedicate a portion of our liquidity position or cash flow from operations to interest payments, limiting the availability of cash for other purposes;
- our flexibility in planning for, or reacting to, changes in our business and industry may be more limited; and
- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired.

We cannot be sure that our leverage resulting from the completion of the Notes Offering will not materially and adversely affect our ability to finance our operations or capital needs or to engage in other business activities. In addition, we cannot be sure that additional financing will be available when required or, if available, will be on terms satisfactory to us.

Servicing the Notes will require a significant amount of cash, and we may not have sufficient cash flow from our business to repay the Notes.*

Our ability to make scheduled payments of the principal and interest on or to refinance the Notes depends on our future business operations and liquidity, which are subject, to some extent, on economic, financial, competitive and other factors that are beyond our control, including, without limitation, the impacts and disruptions caused by the COVID-19 global pandemic. Our business may not generate or sustain a level of cash flow from operations sufficient to service the Notes and any future indebtedness we may incur, while operating our business and making necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying capital expenditures, selling or licensing assets, refinancing indebtedness, or obtaining additional equity capital. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to successfully engage in these activities will depend on a number of factors, including the value of our assets, our operating results and financial condition, the value of our common stock, and the status of the capital markets at such time. We may not be able to engage in any of these activities on commercially reasonable terms or at all, which could result in a default on the Notes or our future indebtedness.

We may incur substantial additional debt or take other actions which could diminish our ability to make payments on the Notes.*

We and our subsidiaries are not prevented by the terms of the indenture governing the Notes, or otherwise, from incurring substantial additional indebtedness in the future, which may include the issuance of secured debt. We are not restricted under the terms of the indenture governing the Notes from incurring additional indebtedness, securing existing or future indebtedness, or recapitalizing our indebtedness. We are similarly not restricted under the terms of the indenture from taking a number of other actions that could have the effect of diminishing our ability to make payments on the Notes when due.

We may not have the ability to raise the funds necessary to repurchase the Notes upon a fundamental change, or to settle conversions of the Notes, and our future indebtedness may contain limitations on our ability to pay cash upon repurchase or conversion of the Notes.*

Holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion, we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or Notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the indenture, or to pay any cash payable on future conversions of the Notes as required by the indenture, would constitute an event of default under the indenture. An event of default under the indenture, or the fundamental change itself, could also lead to an event of default under agreements governing any future indebtedness we may have issued. If the repayment of the related indebtedness were to be accelerated, we may not have sufficient funds to repay the indebtedness, while also repurchasing the Notes or making cash payments upon conversions thereof.

The conditional conversion feature of the Notes may adversely affect our liquidity.*

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock, we would be required to settle all or a portion of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required, under applicable accounting rules, to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would adversely affect our liquidity.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.*

Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options ("ASC 470-20"), an entity must evaluate the ability to separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The determination of the effect of the guidance on the accounting for the Notes is that the equity component has been included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet at the issuance date, and the value of the equity component has been treated as debt discount for purposes of accounting for the debt component of the Notes. As a result, we have recorded non-cash interest expense as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. Accordingly, we have reported a greater net loss in our financial results because the guidance requires interest to include both the amortization of the debt discount and the instrument's coupon interest rate, which could adversely affect the trading price of our common stock.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings (loss) per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings (loss) per share purposes, the transaction is accounted for as if the shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued.

In July 2019, the FASB issued an exposure draft that proposes to change the accounting for convertible debt instruments that are similar to the Notes. Under the current exposure draft, an entity may no longer be required to separately account for the liability and equity components of convertible debt instruments. If the exposure draft is adopted in its current form, this could have the impact of reducing non-cash interest expense, and thereby reducing our net loss, or increasing our net income. Additionally, as currently proposed, the treasury stock method for calculating earnings (loss) per share will no longer be allowed for convertible debt instruments whose principal amount may be settled using shares. Rather, the if-converted method may be required, which would increase our diluted loss per share, or decrease our diluted earnings per share. We cannot be sure that this exposure draft will be issued, or will be issued in its current format. We also cannot be sure whether other changes may be made to the current accounting standards related to the Notes, or otherwise, that could have an adverse impact on our financial statements.

Conversion of the Notes will, to the extent we deliver shares upon conversion of such Notes, dilute the ownership interest of existing stockholders and may otherwise have a negative impact on the trading price of our common stock.*

The conversion of some or all of the Notes will dilute the ownership interests of existing stockholders, including holders who had previously converted their Notes, to the extent we deliver shares upon conversion of any of the Notes. Any sales in the public market of the common stock issued upon the conversion of the Notes could adversely affect prevailing market prices of our common stock. In addition, the perception that some or all of the Notes may be converted into shares of our common stock in the future could have a negative impact on the trading price of our common stock.

The fundamental change repurchase feature of the Notes may delay or prevent an otherwise beneficial takeover attempt.*

The terms of the Notes require us to repurchase the Notes in the event of a fundamental change. A takeover of the Company would trigger an option of the holders of the Notes to require us to repurchase the Notes. In addition, if a make-whole fundamental change (as defined in the indenture) occurs prior to the maturity date of the Notes, we will, in some cases, be required to increase the conversion rate of the Notes for a holder that elects to convert its Notes in connection with such make-whole fundamental change. These and other provisions set forth in the indenture may have the effect of delaying or preventing a takeover of the Company.

The Capped Call Transactions may affect the value of the Notes and our common stock.*

In connection with the issuance of the Notes, we entered into the Capped Call Transactions with the option counterparties. The Capped Call Transactions are expected generally to reduce the potential dilution to our common stock upon any conversion of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap.

The option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock or the Notes, which could affect a Note holder's ability to convert the Notes and, to the extent the activity occurs during any observation period related to a conversion of Notes, it could affect the number of shares and the value of the consideration that a Note holder will receive upon conversion of the Notes. In addition, if such Capped Call Transactions fail to become effective, the option counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock.

The potential effect, if any, of any of these transactions and activities on the market price of our common stock or the Notes will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock and the value of the Notes and, under certain circumstances, the ability of the Note holders to convert the Notes.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the value of the Notes or the trading price of our common stock. In addition, we do not make any representation that the option counterparties will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We are subject to counterparty risk with respect to the Capped Call Transactions*

The option counterparties are financial institutions, and we will be subject to the risk that any or all of them may default under the Capped Call Transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Recent global economic conditions, in particular those related to the COVID-19 global pandemic, have resulted in the failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings, with a claim equal to our exposure at that time under our transactions with that option counterparty. Our exposure will depend on many factors but, in general, an increase in our exposure will be correlated to an increase in the market price and volatility of our common stock. In addition, upon a default by an option counterparty, we may suffer more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Provided Herewith
		Form	File No.	Date of First Filing	Exhibit Number	
10.1	Form of Restricted Stock Unit Agreement					X
10.2*	Amended and Restated 2013 Stock Incentive Plan					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
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document contained in Exhibit 101)					X

* Indicates management contract or compensatory plan.

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

Tandem Diabetes Care, Inc.

Dated: July 30, 2020

By: /s/ John F. Sheridan

John F. Sheridan
President and Chief Executive Officer
(on behalf of the registrant and as the registrant's Principal Executive Officer)

Dated: July 30, 2020

By: /s/ Leigh A. Vosseller

Leigh A. Vosseller
Executive Vice President, Chief Financial Officer and Treasurer
(on behalf of the registrant and as the registrant's Principal Financial and Accounting Officer)

RESTRICTED STOCK UNIT AGREEMENT

TANDEM DIABETES CARE, INC.
AMENDED AND RESTATED 2013 STOCK INCENTIVE PLAN

You have been granted Restricted Stock Units ("***RSUs***") by Tandem Diabetes Care, Inc. (the "***Company***") subject to the terms, restrictions and conditions of the Tandem Diabetes Care, Inc. Amended and Restated 2013 Stock Incentive Plan (the "***Plan***"), the Notice of Restricted Stock Unit Award applicable to the RSUs (the "***Notice***") and this Restricted Stock Unit Agreement (this "***RSU Agreement***"). Unless otherwise defined herein, the terms defined in the Plan or the Notice shall have the same meanings in this RSU Agreement.

1. **Settlement**. Settlement in respect of vested RSUs will be automatic upon vesting thereof. Payment in respect thereof will be made no later than thirty (30) days thereafter and may, in the discretion of the Administrator, be in cash, shares of Common Stock (the "***Shares***") of equivalent Fair Market Value as of the date of vesting, or a combination of both.

2. **No Stockholder Rights**. Unless and until such time as Shares, if any, are issued in settlement of vested RSUs, you shall have no ownership of the Shares, if any, allocated to the RSUs and shall have no right to dividends or to vote such Shares.

3. **Dividend Equivalents**. Dividends, if any (whether in cash or Shares), shall not be credited to you.

4. **No Transfer**. RSUs may not be sold, assigned, transferred, pledged, hypothecated, or otherwise disposed of in any manner other than by will or by the laws of descent or distribution or court order or unless otherwise permitted by the Administrator on a case-by-case basis.

5. **Termination**. If your Continuous Service terminates for any reason, all unvested RSUs shall be forfeited to the Company forthwith, and all rights you have to such RSUs shall immediately terminate. In case of any dispute as to whether your termination of Continuous Service has occurred, the Administrator shall have sole discretion to determine whether such termination has occurred and the effective date of such termination.

6. **Construction**. This RSU Agreement is the result of negotiations between and has been reviewed by each of the parties hereto and their respective counsel, if any; accordingly, this RSU Agreement shall be deemed to be the product of all of the parties hereto, and no ambiguity shall be construed in favor of or against any one of the parties hereto.

7. **Notices**. Any notice to be given under the terms of the Plan shall be addressed to the Company in care of its principal office, and any notice to be given to you shall be addressed to you at the address maintained by the Company for you or at such other address as you may specify in writing to the Company in accordance with this Section 7.

8. **Tax Consequences**. You acknowledge that you will recognize tax consequences in connection with the RSUs. In general, for United States federal income tax purposes, (i) you will not recognize taxable income when you are granted or vest in the RSUs, and (ii) the RSUs will be taxed when they are settled and you will recognize ordinary income equal to the amount of cash and the value of the Shares that you receive from the Company. You should consult a tax adviser regarding your tax obligations in the jurisdiction where you are subject to tax.

9. **Withholding Taxes and Stock Withholding**. Regardless of any action the Company or your actual employer (the "***Employer***") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related withholding ("***Tax-Related Items***"), you acknowledge that the ultimate liability for all Tax-Related Items legally due by you is and remains your responsibility and that the Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the award, including the grant, vesting or settlement of the RSUs, the subsequent sale of Shares, if

any, acquired pursuant to such settlement and the receipt of any dividends; and (2) do not commit to structure the terms of the award or any aspect of the RSUs to reduce or eliminate your liability for Tax-Related Items. You acknowledge that if you are subject to Tax-Related Items in more than one jurisdiction, the Company and/or the Employer may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the settlement of your RSUs, you shall pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all withholding and payment on account obligations of the Company and/or the Employer. In this regard, you authorize the Company and/or the Employer to (i) withhold all applicable Tax-Related Items legally payable by you from your wages or other cash compensation paid to you by the Company and/or the Employer and/or (ii) establish (and you hereby consent to) a method of withholding from any of the following alternatives, if permissible under local law, (a) withholding Shares that otherwise would be issued to you when your RSUs are settled, provided that the Company only withholds the amount of Shares necessary to satisfy the minimum statutory withholding amount, (b) having the Company withhold taxes from the proceeds of the sale of the Shares, either through a voluntary sale or through a mandatory sale arranged by the Company (on your behalf and you hereby authorize such sales by this authorization), (c) your payment of a cash amount, or (d) any other arrangement approved by the Company; all under such rules as may be established by the Administrator and in compliance with the Company's Insider Trading Policy and 10b5-1 Trading Plan Policy, if applicable; provided however, that if you are a Section 16 officer of the Company under the Exchange Act, then the Administrator (as constituted in accordance with Rule 16b-3 under the Exchange Act) shall establish the method of withholding from alternatives (a)-(d) above, and the Administrator shall establish the method prior to the Tax-Related Items withholding event. The Fair Market Value of these Shares, determined as of the effective date when taxes otherwise would have been withheld in cash, will be applied as a credit against the withholding taxes. You shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold as a result of your participation in the Plan or your purchase of Shares that cannot be satisfied by the means previously described. Finally, you acknowledge that the Company has no obligation to deliver Shares to you until you have satisfied the obligations in connection with the Tax-Related Items as described in this Section.

10. **Acknowledgement**. The Company and you agree that the RSUs are granted under and governed by the Notice, this RSU Agreement and the provisions of the Plan (incorporated herein by reference). You: (a) acknowledge receipt of a copy of the Plan and the Plan prospectus, (b) represent that you have carefully read and are familiar with their provisions, and (c) hereby accept the RSUs subject to all of the terms and conditions set forth herein and those set forth in the Plan and the Notice. You hereby agree to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan, the Notice and this RSU Agreement.

11. **Entire Agreement; Enforcement of Rights**. This RSU Agreement, the Plan and the Notice constitute the entire agreement and understanding of the parties relating to the subject matter herein and supersede all prior discussions between them. Any prior agreements, commitments or negotiations concerning the purchase of the Shares hereunder are superseded. No modification of or amendment to this RSU Agreement, nor any waiver of any rights under this RSU Agreement, shall be effective unless in writing and signed by the parties to this RSU Agreement. The failure by either party to enforce any rights under this RSU Agreement shall not be construed as a waiver of any rights of such party.

12. **Compliance with Laws and Regulations**. The issuance of Shares will be subject to and conditioned upon compliance by the Company and you with all applicable state, federal and foreign laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which the Company's Common Stock may be listed or quoted at the time of such issuance or transfer. The Shares issued pursuant to this RSU Agreement shall be endorsed with appropriate legends, if any, determined by the Company.

13. **Governing Law; Severability**. If one or more provisions of this RSU Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (a) such provision shall be excluded from this RSU Agreement, (b) the balance of this RSU Agreement shall be interpreted as if such provision were so excluded and (c) the balance of this RSU Agreement shall be enforceable in accordance

with its terms. This RSU Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law. For purposes of litigating any dispute that may arise directly or indirectly from the Plan, the Notice and this RSU Agreement, the parties hereby submit and consent to litigation in the exclusive jurisdiction of the State of California and agree that any such litigation shall be conducted only in the courts of California in San Diego County or the federal courts of the United States for the Southern District of California and no other courts.

14. **No Rights as Employee, Director or Consultant**. Nothing in this RSU Agreement shall affect in any manner whatsoever the right or power of the Company, or an Affiliated Company, to terminate your service to the Company or such Affiliated Company, as applicable, for any reason, with or without Cause.

15. **Consent to Electronic Delivery of All Plan Documents and Disclosures**. By your acceptance of this RSU, you consent to the electronic delivery of the Notice, this RSU Agreement, the Plan, account statements, Plan prospectuses required by the Securities and Exchange Commission, U.S. financial reports of the Company, and all other documents that the Company is required to deliver to its security holders (including, without limitation, annual reports and proxy statements) or other communications or information related to the RSU. Electronic delivery may include the delivery of a link to a Company intranet or the internet site of a third party involved in administering the Plan, the delivery of the document via e-mail or such other delivery determined at the Company's discretion. You acknowledge that you may receive from the Company a paper copy of any documents delivered electronically at no cost if you contact the Company by telephone, through a postal service or electronic mail at stockadmin@tandemdiabetes.com. You further acknowledge that you will be provided with a paper copy of any documents delivered electronically if electronic delivery fails; similarly, you understand that you must provide on request to the Company or any designated third party a paper copy of any documents delivered electronically if electronic delivery fails. Also, you understand that your consent may be revoked or changed, including any change in the electronic mail address to which documents are delivered (if you have provided an electronic mail address), at any time by notifying the Company of such revised or revoked consent by telephone, postal service or electronic mail at stockadmin@tandemdiabetes.com. Finally, you understand that you are not required to consent to electronic delivery.

16. **Code Section 409A**. For purposes of this RSU Agreement, a termination of employment will be determined consistent with the rules relating to a "separation from service" as defined in Section 409A of the Internal Revenue Code and the regulations thereunder ("***Section 409A***"). Notwithstanding anything else provided herein, to the extent any payments provided under this RSU Agreement in connection with your termination of employment constitute deferred compensation subject to Section 409A, and you are deemed at the time of such termination of employment to be a "specified employee" under Section 409A, then such payment shall not be made or commence until the earlier of (a) the expiration of the six-month period measured from your separation from service or (b) the date of your death following such a separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid adverse tax treatment to you including, without limitation, the additional tax for which you would otherwise be liable under Section 409A(a)(1)(B) in the absence of such a deferral. To the extent any payment under this RSU Agreement may be classified as a "short-term deferral" within the meaning of Section 409A, such payment shall be deemed a short-term deferral, even if it may also qualify for an exemption from Section 409A under another provision of Section 409A. Payments pursuant to this Section are intended to constitute separate payments for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

17. **Adjustment**. In the event of a stock split, a stock dividend or a similar change in Company stock, the number of Shares covered by the RSUs may be adjusted pursuant to the Plan.

18. **Lock-Up Agreement**. Upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, you hereby agree not to sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any securities of the Company however and whenever acquired (other than those included in the registration) without the prior written consent of the Company or such underwriters, as the case may be, for such period of time (not to exceed one hundred eighty (180) days) from the effective date of such registration as may be requested by the Company or such managing underwriters and to execute an agreement

reflecting the foregoing as may be requested by the underwriters at the time of the public offering; provided however that, if during the last seventeen (17) days of the restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs, or prior to the expiration of the restricted period the Company announces that it will release earnings results during the sixteen (16)-day period beginning on the last day of the restricted period, then, upon the request of the managing underwriter, to the extent required by any FINRA rules, the restrictions imposed by this Section shall continue to apply until the end of the third trading day following the expiration of the fifteen (15)-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. In no event will the restricted period extend beyond two hundred sixteen (216) days after the effective date of the registration statement.

19. **Award Subject to Company Clawback or Recoupment**. To the extent permitted by applicable law, the RSUs shall be subject to clawback or recoupment pursuant to any compensation clawback or recoupment policy adopted by the Board or required by law during the term of your employment or other service that is applicable to you. In addition to any other remedies available under such policy, applicable law may require the cancellation of your RSUs (whether vested or unvested) and the recoupment of any gains realized with respect to your RSUs.

BY ACCEPTING THIS RSU, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.

TANDEM DIABETES CARE, INC.

AMENDED AND RESTATED 2013 STOCK INCENTIVE PLAN

As adopted by the Board of Directors on May 28, 2020

ARTICLE 1.

PURPOSES OF THE PLAN

1.1 Purposes. The purposes of the Plan are (a) to amend and restate, in its entirety, the 2013 Stock Incentive Plan, originally adopted by the Board on October 29, 2013, (b) to enhance the Company's ability to attract and retain the services of qualified employees, officers, directors, consultants and other service providers upon whose judgment, initiative and efforts the successful conduct and development of the Company's business largely depends, and (c) to provide additional incentives to such persons or entities to devote their utmost effort and skill to the advancement and betterment of the Company, by providing them an opportunity to participate in the ownership of the Company and thereby have an interest in the success and increased value of the Company.

ARTICLE 2.

DEFINITIONS

For purposes of this Plan, terms not otherwise defined herein shall have the meanings indicated below:

2.1 Administrator. "Administrator" means the Board or, if the Board delegates responsibility for any matter to the Committee, the term Administrator shall mean the Committee.

2.2 Affiliated Company. "Affiliated Company" means:

with respect to Incentive Options, any "parent corporation" or "subsidiary corporation" of the Company, whether now existing or hereafter created or acquired, as those terms are defined in Sections 424(e) and 424(f) of the Code, respectively; and

with respect to Nonqualified Options, Restricted Stock Units, Restricted Stock and Stock Appreciation Rights, any entity described in paragraph (a) of this Section 2.2, plus any other corporation, limited liability company ("LLC"), partnership or joint venture, whether now existing or hereafter created or acquired, with respect to which the Company beneficially owns more than fifty percent (50%) of: (1) the total combined voting power of all outstanding voting securities or (2) the capital or profits interests of an LLC, partnership or joint venture.

2.3 Base Price. "Base Price" means the price per share of Common Stock for purposes of computing the amount payable to a Participant who holds a Stock Appreciation Right upon exercise thereof.

2.4 Board. "Board" means the Board of Directors of the Company.

2.5 Cause. "Cause" means, with respect to a Participant, the occurrence of any of the following events: (i) such Participant's commission of any felony or any crime involving fraud, dishonesty or moral turpitude under the laws of the United States or any state thereof; (ii) such Participant's attempted commission of, or participation in, a fraud or act of dishonesty against the Company; (iii) such Participant's intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; (iv) such Participant's unauthorized use or disclosure of the Company's confidential information or trade secrets; or (v) such Participant's gross misconduct.

2.6 Change in Control. "Change in Control" means:

(a) The acquisition, directly or indirectly, in one transaction or a series of related transactions, by any person or group (within the meaning of Section 13(d)(3) of the Exchange Act) of the beneficial ownership of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of all outstanding securities of the Company; provided, however, that a Change in Control shall not result upon such acquisition of beneficial ownership if such acquisition occurs as a result of a public offering of the Company's securities or any financing transaction or series of financing transactions;

(b) A merger or consolidation in which the Company is not the surviving entity, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such merger or consolidation hold as a result of holding Company securities prior to such transaction, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the surviving entity (or the parent of the surviving entity) immediately after such merger or consolidation;

(c) A reverse merger in which the Company is the surviving entity but in which the holders of the outstanding voting securities of the Company immediately prior to such merger hold, in the aggregate, securities possessing less than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the Company or of the acquiring entity immediately after such merger; or

(d) The sale, transfer or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company, except for a transaction in which the holders of the outstanding voting securities of the Company immediately prior to such transaction(s) receive as a distribution with respect to securities of the Company, in the aggregate, securities possessing more than fifty percent (50%) of the total combined voting power of all outstanding voting securities of the acquiring entity immediately after such transaction(s).

Notwithstanding the foregoing, if (i) a transaction does not qualify as a change in control event within the meaning of Section 409A of the Code and (ii) treating such transaction as a Change in Control would cause, give rise to or otherwise result in a failure to satisfy the distribution requirements of Section 409A(a)(2)(A) of the Code (to the extent the Plan and the applicable Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement are not exempt therefrom), then such transaction will not be deemed a Change in Control.

2.7 Code. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.8 Committee. "Committee" means a committee of two or more members of the Board appointed to administer the Plan, as set forth in Section 9.1.

2.9 Common Stock. "Common Stock" means the Common Stock of the Company, subject to adjustment pursuant to Section 4.2.

2.10 Company. "Company" means Tandem Diabetes Care, Inc., a Delaware corporation, or any entity that is a successor to the Company.

2.11 Continuous Service. Unless otherwise provided in the Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement, the terms of which may be different from the following, "Continuous Service" means (a) Participant's employment by either the Company or any Affiliated Company, or by a successor entity following a Change in Control, which is uninterrupted except for vacations, illness (not including permanent Disability), or leaves of absence which are approved in writing by the Company or any of such other employer corporations, as applicable, (b) service as a member of the Board until the Participant resigns, is removed from office, or Participant's term of office expires and he or she is not reelected, or (c) so long as the Participant is engaged as a Consultant or other Service Provider. Notwithstanding the foregoing, if (i) a termination, leave of

absence, resignation, expiration or other cessation of engagement or employment does not qualify as a separation from service from the Company within the meaning of Section 409A of the Code and (ii) treating such termination, leave of absence, resignation, expiration or other cessation of engagement or employment as a termination of Continuous Service would cause, give rise to or otherwise result in a failure to satisfy the distribution requirements of Section 409A(a)(2)(A) of the Code (to the extent the Plan and the applicable Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement are not exempt therefrom), then such termination, leave of absence, resignation, expiration or other cessation of engagement or employment will not be deemed a termination of Continuous Service.

2.12 Disability. "Disability" means permanent and total disability as defined in Section 22(e)(3) of the Code. The Administrator's determination of a Disability or the absence thereof shall be conclusive and binding on all interested parties.

2.13 Effective Date. "Effective Date" means October 29, 2013.

2.14 Exchange Act. "Exchange Act" means the Securities and Exchange Act of 1934, as amended.

2.15 Exercise Price. "Exercise Price" means the purchase price per share of Common Stock payable by the Optionee to the Company upon exercise of an Option.

2.16 Fair Market Value. "Fair Market Value" on any given date means the value of one share of Common Stock, determined as follows:

(a) If the Common Stock is then listed or admitted to trading on The NASDAQ Stock Market or another stock exchange which reports closing sale prices, the Fair Market Value shall be the closing sale price on the date of valuation on The NASDAQ Stock Market or principal stock exchange on which the Common Stock is then listed or admitted for trading, or, if no closing sale price is quoted on such day, then the Fair Market Value shall be the closing sale price of the Common Stock on The NASDAQ Stock Market or such exchange on the next preceding day on which a closing sale price is reported.

(b) If the Common Stock is not then listed or admitted to trading on The NASDAQ Stock Market or a stock exchange which reports closing sale prices, the Fair Market Value shall be the average of the closing bid and asked prices of the Common Stock in the over-the-counter market on the date of valuation.

(c) If neither (a) nor (b) is applicable as of the date of valuation, then the Fair Market Value shall be determined by the Administrator in good faith using any reasonable method of evaluation in a manner consistent with the valuation principles under Section 409A of the Code, which determination shall be conclusive and binding on all interested parties.

2.17 FINRA Dealer. "FINRA Dealer" means a broker-dealer that is a member of the Financial Industry Regulatory Authority.

2.18 Incentive Option. "Incentive Option" means any Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

2.19 Incentive Option Agreement. "Incentive Option Agreement" means an Option Agreement with respect to an Incentive Option.

2.20 Initial Limit. "Initial Limit" means four million eight hundred nine thousand 4,809,000 shares.

2.21 Insider Trading Policy. "Insider Trading Policy" means the insider trading policy of the Company, as adopted by the Board and then in effect.

2.22 New Incentives. "New Incentives" has the meaning set forth in Section 11.1(b).

2.23 Nonqualified Option. "Nonqualified Option" means any Option that is not an Incentive Option. To the extent that any Option designated as an Incentive Option fails in whole or in part to qualify as an Incentive Option, including, without limitation, for failure to meet the limitations applicable to a 10% Stockholder or because it exceeds the annual limit provided for in Section 5.8 below, it shall to that extent constitute a Nonqualified Option.

2.24 Nonqualified Option Agreement. "Nonqualified Option Agreement" means an Option Agreement with respect to a Nonqualified Option.

2.25 Option. "Option" means any option to purchase Common Stock granted pursuant to this Plan.

2.26 Option Agreement. "Option Agreement" means the written agreement entered into between the Company and the Optionee with respect to an Option granted under this Plan.

2.27 Optionee. "Optionee" means any Participant who holds an Option.

2.28 Participant. "Participant" means an individual or entity that holds Options, Restricted Stock Units, Restricted Stock or Stock Appreciation Rights under this Plan.

2.29 Performance Criteria. "Performance Criteria" means the criteria that the Administrator may select from time to time for purposes of establishing the performance goals or objectives applicable to the vesting of any Incentive Option, Nonqualified Option, Restricted Stock Units, Restricted Stock or Stock Appreciation Rights granted under the Plan, which are limited to any one of, or combination of, the following (which may be applicable to the Company, an Affiliated Company, a division, business unit or product of the Company or any Affiliated Company, or any combination of the foregoing, and which may be stated as an absolute amount, a target percentage over a base percentage or absolute amount, or the occurrence of a specific event): revenue or sales, gross profit (loss), operating income (loss), earnings (loss) before interest, taxes, depreciation and amortization (EBITDA); net income (loss) (either before or after interest, taxes, depreciation and/or amortization), cash flow, cash or working capital balance, changes in the market price of the Common Stock, earnings (loss) per share of Common Stock (EPS), product development or regulatory milestones, acquisitions or strategic transactions, return on capital, assets, equity, or investment, total stockholder return, expense amount or reduction, operating efficiency, number of customers and customer satisfaction, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group.

2.30 Plan. "Plan" means this Amended and Restated 2013 Stock Incentive Plan of the Company.

2.31 Purchase Price. "Purchase Price" means the purchase price per share of Restricted Stock.

2.32 Restricted Stock. "Restricted Stock" means shares of Common Stock issued pursuant to Article 7, subject to any restrictions and conditions as are established pursuant to such Article 7.

2.33 Restricted Stock Agreement. "Restricted Stock Agreement" means the written agreement entered into between the Company and a Participant evidencing the grant of Restricted Stock under the Plan.

2.34 Restricted Stock Unit. "Restricted Stock Unit" means a right to receive an amount equal to the Fair Market Value of one share of Common Stock, issued pursuant to Article 6, subject to any restrictions and conditions as are established pursuant to Article 6.

2.35 Restricted Stock Unit Agreement. "Restricted Stock Unit Agreement" means the written agreement evidencing the grant of Restricted Stock Units to a Participant under the Plan.

2.36 Securities Act. "Securities Act" means the Securities Act of 1933, as amended.

2.37 Service Provider. "Service Provider" means a consultant or other person or entity the Administrator authorizes to become a Participant in the Plan and who provides services to (i) the Company, (ii) an Affiliated Company, or (iii)

any other business venture designated by the Administrator in which the Company or an Affiliated Company has a significant ownership interest.

2.38 Stock Appreciation Right. "Stock Appreciation Right" means a right issued pursuant to Article 8, subject to any restrictions and conditions as are established pursuant to Article 8, that is designated as a Stock Appreciation Right.

2.39 Stock Appreciation Right Agreement. "Stock Appreciation Right Agreement" means the written agreement entered into between the Company and a Participant evidencing the grant of Stock Appreciation Rights under the Plan.

2.40 10% Stockholder. "10% Stockholder" means a person who, as of a relevant date, owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of an Affiliated Company.

ARTICLE 3.

ELIGIBILITY

3.1 Incentive Options. Only employees of the Company or of an Affiliated Company (including members of the Board if they are employees of the Company or of an Affiliated Company) are eligible to receive Incentive Options under the Plan.

3.2 Nonqualified Options; Restricted Stock Units; Restricted Stock and Stock Appreciation Rights. Employees of the Company or of an Affiliated Company, members of the Board (whether or not employed by the Company or an Affiliated Company), and Service Providers are eligible to receive Nonqualified Options, Restricted Stock Units, Restricted Stock and Stock Appreciation Rights under the Plan.

3.3 Annual Limitation. Subject to adjustment as to the number and kind of shares pursuant to Section 4.2, in no event shall any Participant be granted in any one calendar year (a) Options or Stock Appreciation Rights pursuant to which, in the case of Options, the aggregate number of shares of Common Stock that may be acquired thereunder, or, in the case of Stock Appreciation Rights, the aggregate number of shares of Common Stock covered thereby, exceeds two million (2,000,000) shares or (b) Restricted Stock Units or Restricted Stock pursuant to which the aggregate number of shares of Common Stock covered thereby exceeds one million (1,000,000) shares.

3.4 Deferrals. To the extent permitted by applicable law, the Administrator, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Option, Restricted Stock Units, Restricted Stock or Stock Appreciation Right may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made only in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Administrator may provide for distributions while a Participant is providing Continuous Service to the Company.

ARTICLE 4.

PLAN SHARES

4.1 Shares Subject to the Plan. The maximum number of shares of Common Stock reserved and available for issuance under this Plan shall be 6,726,135 shares, subject to adjustment as to the number and kind of shares pursuant to Section 4.2. Subject to such overall limitation, the maximum aggregate number of shares of Common Stock that may be issued in the form of Incentive Options shall not exceed 6,726,135 shares, subject to adjustment as provided in Section 4.2. For purposes of this limitation, in the event that (a) all or any portion of any Options or Stock Appreciation Rights granted under the Plan can no longer under any circumstances be exercised, (b) any shares of Common Stock are reacquired by the Company pursuant to an Option Agreement, or (c) all or any portion of any Restricted Stock Units or Restricted Stock granted under the Plan are forfeited or can no longer under any circumstances vest, the shares

of Common Stock allocable to or covered by the unexercised or unvested portion of such Options, Stock Appreciation Rights, Restricted Stock Units or Restricted Stock or the shares of Common Stock so reacquired shall again be available for grant or issuance under the Plan. The following shares of Common Stock may not again be made available for issuance as awards under the Plan: (x) the gross number of shares of Common Stock subject to outstanding Stock Appreciation Rights settled in exchange for shares of Common Stock, (y) shares of Common Stock used to pay the Exercise Price related to outstanding Options, or (z) shares of Common Stock used to pay withholding taxes related to outstanding Options, Stock Appreciation Rights or Restricted Stock Units. The shares available for issuance under the Plan may be authorized but unissued shares of Common Stock or shares of Common Stock reacquired by the Company.

4.2 Changes in Capital Structure. In the event that the outstanding shares of Common Stock are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a recapitalization, stock split, reverse stock split, reclassification, stock dividend, or other similar change in the capital structure of the Company, then appropriate adjustments shall be made to the aggregate number and kind of shares subject to this Plan, the number and kind of shares and the price per share subject to or covered by outstanding Option Agreements, Restricted Stock Unit Agreements, Restricted Stock Agreements or Stock Appreciation Right Agreements and the limit on the number of shares under Section 3.3, all in order to preserve, as nearly as practical, but not to increase, the benefits to Participants.

ARTICLE 5.

OPTIONS

5.1 Grant of Stock Options. The Administrator (or pursuant to Section 9.2, an officer of the Company) shall have the right to grant pursuant to this Plan, Options subject to such terms, restrictions and conditions as the Administrator may determine at the time of grant. Such conditions may include, but are not limited to, continued employment or the achievement of specified performance goals or objectives established by the Administrator with respect to one or more Performance Criteria, which require the Administrator to certify whether and the extent to which such Performance Criteria were achieved.

5.2 Option Agreements. Each Option granted pursuant to this Plan shall be evidenced by an Option Agreement which shall specify the number of shares subject thereto, vesting provisions relating to such Option, the Exercise Price per share, and whether the Option is an Incentive Option or Nonqualified Option. As soon as is practical following the grant of an Option, an Option Agreement shall be duly executed and delivered by or on behalf of the Company to the Optionee to whom such Option was granted. Each Option Agreement shall be in such form and contain such additional terms and conditions, not inconsistent with the provisions of this Plan, as the Administrator shall, from time to time, deem appropriate. Each Option Agreement may be different from each other Option Agreement.

5.3 Exercise Price. The Exercise Price per share of Common Stock covered by each Option shall be determined by the Administrator, subject to the following: (a) the Exercise Price of an Incentive Option shall not be less than 100% of Fair Market Value on the date the Incentive Option is granted, (b) the Exercise Price of a Nonqualified Option shall not be less than 100% of Fair Market Value on the date the Nonqualified Option is granted, and (c) if the person to whom an Incentive Option is granted is a 10% Stockholder on the date of grant, the Exercise Price shall not be less than 110% of Fair Market Value on the date the Incentive Option is granted. However, an Option may be granted with an Exercise Price lower than that set forth in the preceding sentence if such Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Sections 409A and 424 of the Code.

5.4 Payment of Exercise Price. Payment of the Exercise Price shall be made upon exercise of an Option and may be made, in the discretion of the Administrator, subject to any legal restrictions, by: (a) cash; (b) check; (c) the surrender of shares of Common Stock owned by the Optionee, which surrendered shares shall be valued at Fair Market Value as of the date of such exercise; (d) the cancellation of indebtedness of the Company to the Optionee; (e) provided that

a public market for the Common Stock exists, a "same day sale" commitment from the Optionee and a FINRA Dealer whereby the Optionee irrevocably elects to exercise the Option and to sell a portion of the shares so purchased to pay for the Exercise Price and whereby the FINRA Dealer irrevocably commits upon receipt of such shares to forward the Exercise Price directly to the Company; or (f) any combination of the foregoing methods of payment or any other consideration or method of payment as shall be permitted by applicable law.

5.5 Term and Termination of Options. The term and provisions for termination of each Option shall be as fixed by the Administrator, but no Option may be exercisable more than ten (10) years after the date it is granted. An Incentive Option granted to a person who is a 10% Stockholder on the date of grant shall not be exercisable more than five (5) years after the date it is granted.

5.6 Date of Grant. The date of grant of an Option will be the date on which the Administrator makes the determination to grant such Options, unless a later date is otherwise specified by the Administrator. The Option Agreement and a copy of this Plan will be delivered to the Optionee within a reasonable time after the granting of the Option.

5.7 Vesting and Exercise of Options. Each Option shall vest and become exercisable in one or more installments at such time or times and subject to such conditions, including without limitation the achievement of specified performance goals or objectives established with respect to one or more Performance Criteria as shall be determined by the Administrator.

5.8 Annual Limit on Incentive Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Common Stock with respect to which Incentive Options granted under this Plan and any other plan of the Company or any Affiliated Company become exercisable for the first time by an Optionee during any calendar year shall not exceed $100,000.

5.9 Nontransferability of Options. Except as otherwise provided in this Section 5.9, Options shall not be assignable or transferable except by will, the laws of descent and distribution or pursuant to a domestic relations order entered by a court in settlement of marital property rights, and during the life of the Optionee, Options shall be exercisable only by the Optionee. At the discretion of the Administrator and in accordance with rules it establishes from time to time, Optionees may be permitted to transfer some or all of their Nonqualified Options to one or more "family members," which is not a "prohibited transfer for value," provided that (a) the Optionee (or such Optionee's estate or representative) shall remain obligated to satisfy all income or other tax withholding obligations associated with the exercise of such Nonqualified Option; (b) the Optionee shall notify the Company in writing that such transfer has occurred and disclose to the Company the name and address of the "family member" or "family members" and their relationship to the Optionee, and (c) such transfer shall be effected pursuant to transfer documents in a form approved by the Administrator. For purposes of the foregoing, the terms "family members" and "prohibited transfer for value" have the meaning ascribed to them in the General Instructions to Form S-8 (or any successor form) promulgated under the Securities Act.

5.10 Non-Employee Directors.

(a) Each non-employee director of the Company who commences service on the Board after March 31, 2019 shall automatically be granted a Nonqualified Option, with an exercise price equal to Fair Market Value on the date of commencement of such director's service on the Board, to purchase shares of Common Stock with an aggregate Black-Scholes value of $300,000, or a Restricted Stock award or Restricted Stock Unit award with an aggregate grant date fair value of $300,000, or a combination thereof with a total value of $300,000, which determination will be made by the Administrator at the time of such grant. Such Nonqualified Options, Restricted Stock award or Restricted Stock Unit award, as the case may be, shall vest in three (3) equal annual installments over a three-year period following the date of grant, provided that the Administrator may set a different vesting schedule for any particular award in its sole discretion at the time of such grant.

(b) Each non-employee director shall also automatically be granted, on the date of each annual meeting of stockholders, commencing on the date of the Company's 2020 annual meeting of stockholders, either a Nonqualified Option, with an exercise price equal to Fair Market Value on the date of grant, to purchase shares of Common Stock

with an aggregate Black-Scholes value of $170,000, or a Restricted Stock award or Restricted Stock Unit award with a grant date fair value of $170,000, or a combination thereof with a total value of $170,000, which determination will be made by the Administrator at the time of such grant. To the extent a non-employee director commences service on the Board on a date other than the date of an annual meeting of stockholders, such director shall receive (in addition to the award referred to in subsection (a) above), on the first annual meeting of stockholders to occur following the date of commencement of such director's service on the Board, either (i) a Nonqualified Option, with an exercise price equal to Fair Market Value on the date of grant, to purchase shares of Common Stock with an aggregate Black-Scholes value equal to (x) $170,000 multiplied by (y) the number of full months of service on the Board prior to such grant date (up to a maximum of twelve (12) months), divided by twelve (12), or (ii) a Restricted Stock award or Restricted Stock Unit award with a grant date fair value equal to (x) $170,000 multiplied by (y) the number of full months of service on the Board prior to such grant date (up to a maximum of twelve (12) months), divided by twelve (12), which determination will be made by the Administrator at the time of such grant. Such Nonqualified Options, Restricted Stock award or Restricted Stock Unit award as the case may be, shall vest in full on the one year anniversary of the date of grant, provided that the Administrator may set a different vesting schedule for any particular award in its sole discretion at the time of such grant.

5. 11 Rights as a Stockholder. An Optionee or permitted transferee of an Option shall have no rights or privileges as a stockholder with respect to any shares covered by an Option until such Option has been duly exercised in accordance with the terms of the relevant Option Agreement.

5.12 Unvested Shares. The Administrator shall have the discretion to grant Options that are exercisable for unvested shares of Common Stock on such terms and conditions as the Administrator shall determine from time to time.

5.13 Notice of Disqualifying Disposition of Incentive Option Shares. If a Participant sells or otherwise disposes of any of the shares of Common Stock acquired pursuant to the exercise of an Incentive Option on or before the later of (i) the date two (2) years after the date of grant of such Incentive Option, or (ii) the date one (1) year after the date of exercise of such Incentive Option, such Participant shall immediately notify the Company in writing of such disposition.

5.14 Compliance with Code Section 409A. Notwithstanding anything in this Article 5 to the contrary, to the extent that any Option is subject to Code Section 409A, the Option is intended to be structured to satisfy the requirements of Code Section 409A, or an applicable exemption, as determined by the Administrator.

ARTICLE 6.
RESTRICTED STOCK UNITS

6.1 Grants of Restricted Stock Units. The Administrator shall have the right to grant pursuant to this Plan Restricted Stock Units subject to such terms, restrictions and conditions as the Administrator may determine at the time of grant. Such conditions may include, but are not limited to, continued employment or the achievement of specified performance goals or objectives established by the Administrator with respect to one or more Performance Criteria, which require the Administrator to certify whether and the extent to which such Performance Criteria were achieved.

6.2 Restricted Stock Unit Agreements. A Participant shall have no rights with respect to the Restricted Stock Units covered by a Restricted Stock Unit Agreement until the Participant has executed and delivered to the Company the applicable Restricted Stock Unit Agreement. Each Restricted Stock Unit Agreement shall be in such form, and shall set forth such other terms, conditions and restrictions of the Restricted Stock Unit Agreement, not inconsistent with the provisions of this Plan, as the Administrator shall, from time to time, deem appropriate. Each Restricted Stock Unit Agreement may be different from each other Restricted Stock Unit Agreement.

6.3 Vesting of Restricted Stock Units. Each Restricted Stock Unit shall vest in one or more installments at such time or times and subject to such conditions, including without limitation the achievement of specified performance goals or objectives established with respect to one or more Performance Criteria as shall be determined by the Administrator.

6.4 Form and Timing of Settlement. Except as otherwise provided in a Restricted Stock Unit Agreement, settlement in respect of vested Restricted Stock Units will be automatic upon vesting thereof. Payment in respect thereof will be made no later than thirty (30) days thereafter and may, in the discretion of the Administrator, be in cash, shares of Common Stock of equivalent Fair Market Value as of the date of vesting, or a combination of both, except as otherwise provided in a Restricted Stock Unit Agreement.

6.5 Rights as a Stockholder. Holders of Stock Appreciation Rights shall have no rights or privileges as a stockholder with respect to any shares of Common Stock covered thereby unless and until they become owners of shares of Common Stock following settlement in respect of such Stock Appreciation Rights, in whole or in part, in shares of Common Stock, pursuant to the terms, restrictions and conditions set forth in the relevant Restricted Stock Unit Agreement.

6.6 Restrictions. Restricted Stock Units may not be sold, pledged or otherwise encumbered or disposed of and shall not be assignable or transferable except by will, the laws of descent and distribution or pursuant to a domestic relations order entered by a court in settlement of marital property rights, except as specifically provided in the Restricted Stock Unit Agreement or as authorized by the Administrator.

6.7 Compliance with Code Section 409A. Notwithstanding anything in this Article 6 to the contrary, all awards of Restricted Stock Units must be structured to satisfy the requirements of Code Section 409A, or an applicable exemption, as determined by the Administrator.

ARTICLE 7.

RESTRICTED STOCK

7.1 Issuance and Sale of Restricted Stock. The Administrator shall have the right to issue shares of Restricted Stock subject to such terms, restrictions and conditions as the Administrator may determine at the time of grant. Such conditions may include, but are not limited to, continued employment or the achievement of specified performance goals or objectives established by the Administrator with respect to one or more Performance Criteria, which require the Administrator to certify whether and the extent to which such Performance Criteria were achieved. The Purchase Price of Restricted Stock (which may be zero) shall be determined by the Administrator.

7.2 Restricted Stock Purchase Agreements. A Participant shall have no rights with respect to the shares of Restricted Stock covered by a Restricted Stock Agreement until the Participant has paid the full Purchase Price, if any, to the Company in the manner set forth in Section 7.3 and has executed and delivered to the Company the applicable Restricted Stock Agreement. Each Restricted Stock Agreement shall be in such form, and shall set forth such terms, conditions and restrictions of the Restricted Stock, not inconsistent with the provisions of this Plan, as the Administrator shall, from time to time, deem appropriate. Each Restricted Stock Agreement may be different from each other Restricted Stock Agreement.

7.3 Payment of Purchase Price. Subject to any legal restrictions, payment of the Purchase Price, if any, may be made, in the discretion of the Administrator, by: (a) cash; (b) check; (c) the Participant's promissory note in a form and on terms acceptable to the Administrator; (d) the cancellation of indebtedness of the Company to the Participant; (e) the waiver of compensation due or accrued to the Participant for services rendered; or (f) any combination of the foregoing methods of payment or any other consideration or method of payment as shall be permitted by applicable law.

7.4 Vesting of Restricted Stock. Each share of Restricted Stock shall vest in one or more installments at such time or times and subject to such conditions, including without limitation the achievement of specified performance goals or objectives established with respect to one or more Performance Criteria as shall be determined by the Administrator.

7.5 Rights as a Stockholder. Upon complying with the provisions of Section 7.2, a Participant shall have the rights of a stockholder with respect to Restricted Stock, including voting and dividend rights (subject to Section 9.6), subject to the terms, restrictions and conditions set forth in the relevant Restricted Stock Agreement.

7.6 Dividends. If payment for shares of Restricted Stock is made by promissory note, any cash dividends paid with respect to the Restricted Stock may be applied, in the discretion of the Administrator, to repayment of such note.

7.7 Compliance with Code Section 409A. Notwithstanding anything in this Article 7 to the contrary, all awards of Restricted Stock must be structured to satisfy the requirements of Code Section 409A, or an applicable exemption, as determined by the Administrator.

ARTICLE 8.

STOCK APPRECIATION RIGHTS

8.1 Grants of Stock Appreciation Rights. The Administrator shall have the right to grant pursuant to this Plan, Stock Appreciation Rights subject to such terms, restrictions and conditions as the Administrator may determine at the time of grant. Such conditions may include, but are not limited to, continued employment or the achievement of specified performance goals or objectives established by the Administrator with respect to one or more Performance Criteria, which require the Administrator to certify whether and the extent to which such Performance Criteria were achieved.

8.2 Stock Appreciation Right Agreements. A Participant shall have no rights with respect to the Stock Appreciation Rights covered by a Stock Appreciation Right Agreement until the Participant has executed and delivered to the Company the applicable Stock Appreciation Right Agreement. Each Stock Appreciation Right Agreement shall be in such form, and shall set forth the Base Price and such other terms, conditions and restrictions of the Stock Appreciation Right Agreement, not inconsistent with the provisions of this Plan, as the Administrator shall, from time to time, deem appropriate. Each such Stock Appreciation Right Agreement may be different from each other Stock Appreciation Right Agreement.

8.3 Base Price. The Base Price per share of Common Stock covered by each Stock Appreciation Right shall be determined by the Administrator and will be not less than 100% of Fair Market Value on the date the Stock Appreciation Right is granted. However, a Stock Appreciation Right may be granted with a Base Price lower than that set forth in the preceding sentence if such Stock Appreciation Right is granted pursuant to an assumption or substitution for another stock appreciation right in a manner satisfying the provisions of Section 409A of the Code.

8.4 Term and Termination of Stock Appreciation Rights. The term and provisions for termination of each Stock Appreciation Right shall be as fixed by the Administrator, but no Stock Appreciation Right may be exercisable more than ten (10) years after the date it is granted.

8.5 Vesting and Exercise of Stock Appreciation Rights. Each Stock Appreciation Right shall vest and become exercisable in one or more installments at such time or times and subject to such conditions, including without limitation the achievement of specified performance goals or objectives as shall be determined by the Administrator.

8.6 Amount, Form and Timing of Settlement. Upon exercise of a Stock Appreciation Right, the Participant who holds such Stock Appreciation Right will be entitled to receive payment from the Company in an amount equal to the product of (a) the difference between the Fair Market Value of a share of Common Stock on the date of exercise over the Base Price per share of Common Stock covered by such Stock Appreciation Right and (b) the number of shares of Common Stock with respect to which such Stock Appreciation Right is being exercised. Payment in respect thereof will be made no later than thirty (30) days after such exercise, provided that such payment will be made in a manner such that no amount of compensation will be treated as deferred under Treasury Regulation Section 1.409A-1(b)(5)(i)(D). Such payment may, in the discretion of the Administrator, be in cash, shares of Common Stock of equivalent Fair Market Value as of the date of exercise, or a combination of both, except as specifically provided in the Stock Appreciation Right Agreement.

8.7 Rights as a Stockholder. Holders of Stock Appreciation Rights shall have no rights or privileges as a stockholder with respect to any shares of Common Stock covered thereby unless and until they become owners of shares of Common

Stock following settlement in respect of such Stock Appreciation Rights, in whole or in part, in shares of Common Stock, pursuant to the terms, restrictions and conditions set forth in the relevant Stock Appreciation Rights Agreement.

8.8 Restrictions. Stock Appreciation Rights may not be sold, pledged or otherwise encumbered or disposed of and shall not be assignable or transferable except by will, the laws of descent and distribution or pursuant to a domestic relations order entered by a court in settlement of marital property rights, except as specifically provided in the Stock Appreciation Right Agreement or as authorized by the Administrator.

8.9 Unvested Shares. The Administrator shall have the discretion to grant Stock Appreciation Rights that may be exercised or settled for unvested shares of Common Stock on such terms and conditions as the Administrator shall determine from time to time.

8.10 Compliance with Code Section 409A. Notwithstanding anything in this Article 8 to the contrary, all award of Stock Appreciation Rights are intended to be structured to satisfy the requirements of Code Section 409A, or an applicable exemption, as determined by the Administrator.

ARTICLE 9.

ADMINISTRATION OF THE PLAN

9.1 Administrator. Authority to control and manage the operation and administration of the Plan shall be vested in the Board, which may delegate such responsibilities in whole or in part to the Committee. Each of the members shall meet the independence requirements under the then applicable rules, regulations or listing requirements adopted by The NASDAQ Stock Market or the principal exchange on which the Common Stock is then listed or admitted to trading. Members of the Committee may be appointed from time to time by, and shall serve at the pleasure of, the Board. The Board may limit the composition of the Committee to those persons necessary to comply with the requirements of Section 16 of the Exchange Act. As used herein, the term “Administrator” means the Board or, with respect to any matter as to which responsibility has been delegated to the Committee, the term Administrator shall mean the Committee.

9.2 Delegation to an Officer. To the extent authorized by applicable law, the Board may delegate to one or more officers of the Company the authority to do one or both of the following: (a) designate employees (other than officers) of the Company or any of its subsidiary corporations to be recipients of Incentive Options, Nonqualified Options, Restricted Stock Units, Restricted Stock or Stock Appreciation Rights and (b) determine the number of shares of Common Stock to be subject to such Options or Stock Appreciation Rights or to be issued as Restricted Stock Units or Restricted Stock and granted to such employees (other than officers) of the Company or any of its subsidiary corporations; provided, however, that the resolutions of the Board regarding such delegation shall specify that grants of Plan awards to employees pursuant to this Section 9.2 shall be consistent with specific parameters approved in advance by the Committee.

9.3 Powers of the Administrator. In addition to any other powers or authority conferred upon the Administrator elsewhere in this Plan or by law, the Administrator shall have full power and authority: (a) to determine the persons to whom, and the time or times at which, Incentive Options, Nonqualified Options, Restricted Stock Units, Restricted Stock or Stock Appreciation Rights shall be granted, the number of shares to be represented by each Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement, and the Exercise Price of such Options, the Purchase Price of the Restricted Stock and the Base Price of such Stock Appreciation Rights; (b) to interpret the Plan; (c) to create, amend or rescind rules and regulations relating to the Plan; (d) to determine the terms, conditions and restrictions contained in, and the form of, Option Agreements, Restricted Stock Unit Agreements, Restricted Stock Agreements and Stock Appreciation Right Agreements; (e) to determine the identity or capacity of any persons who may be entitled to exercise a Participant’s rights under any Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement under the Plan; (f) to correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any Option Agreement,

Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement; (g) to accelerate the vesting of any Option, Restricted Stock Unit, Restricted Stock or Stock Appreciation Right; (h) to extend the expiration date of any Option Agreement or Stock Appreciation Right Agreement; (i) to amend outstanding Option Agreements, Restricted Stock Unit Agreements, Restricted Stock Agreements or Stock Appreciation Right Agreements to provide for, among other things, any change or modification which the Administrator could have included in the original agreement or in furtherance of the powers provided for herein; and (j) to make all other determinations necessary or advisable for the administration of this Plan, but only to the extent not contrary to the express provisions of this Plan. Any action, decision, interpretation or determination made in good faith by the Administrator in the exercise of its authority conferred upon it under this Plan shall be final and binding on the Company and all Participants. Notwithstanding any term or provision in this Plan, the Administrator shall not have the power or authority, by amendment or otherwise to extend the expiration date of an Option or Stock Appreciation Right beyond the original expiration date of such Option or Stock Appreciation Right.

9.4 Repricing Prohibited. Subject to Section 4.2, and except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), neither the Committee nor the Board shall amend the terms of outstanding awards to reduce the Exercise Price of outstanding Options or the Base Price of outstanding Stock Appreciation Rights or cancel outstanding Options or Stock Appreciation Rights in exchange for cash, Options with an Exercise Price that is less than the Exercise Price of the original Options, or Stock Appreciation Rights with a Base Price that is less than the Base Price of the original Stock Appreciation Rights, in each case without approval of the Company's stockholders, evidenced by a majority of votes cast.

9.5 Limitation on Liability. No employee of the Company or member of the Board or Committee shall be subject to any liability with respect to duties under the Plan unless the person acts fraudulently or in bad faith. To the extent permitted by law, the Company shall indemnify each member of the Board or Committee, and any employee of the Company with duties under the Plan, who was or is a party, or is threatened to be made a party, to any threatened, pending or completed proceeding, whether civil, criminal, administrative or investigative, by reason of such person's conduct in the performance of duties under the Plan.

9.6 No Dividends on Unvested Awards. The Administrator may not provide for the current payment of dividends or dividend equivalents with respect to any shares of Common Stock subject to an outstanding award granted under the Plan (or portion thereof) that has not vested. For any such award, the Committee may provide only for the accrual of dividends or dividend equivalents that will not be payable to the Participant unless and until, and only to the extent that, such award vests. No dividends or dividend equivalents shall be paid on Options or Stock Appreciation Rights.

ARTICLE 10.

RESTRICTIONS; EXTENSIONS

10.1 Recovery. All Options and Stock Appreciation Rights, or any shares of Common Stock or cash issued or awarded pursuant to the exercise of Options or Stock Appreciation Rights, and all Restricted Stock and Restricted Stock Units will be subject to recoupment in accordance with any clawback or recovery policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Administrator may impose such other clawback, recovery or recoupment provisions in a Stock Option Agreement, Stock Appreciation Right Agreement, Restricted Stock Unit Agreement or Restricted Stock Agreement as the Administrator determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of Common Stock or other cash or property upon the occurrence of an event constituting Cause. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company.

10.2 Termination for Cause. Except as explicitly provided otherwise in a Participant's Stock Option Agreement or Stock Appreciation Right Agreement or other individual written agreement between the Company or any Affiliated Company and the Participant, if a Participant's Continuous Service is terminated for Cause, the Option or SAR will terminate immediately upon such Participant's termination of Continuous Service, and the Participant will be prohibited from exercising his or her Option or SAR from and after the date of such termination of Continuous Service. "Cause" will have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, shall mean Cause as defined in this Plan. The determination that a termination of the Participant's Continuous Service is either for Cause or without Cause will be made by the Administrator, in its sole discretion. Any determination by the Administrator that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Options or Stock Appreciation Rights held by such Participant will have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

10.3 Extension of Termination Date.

(a) If the exercise of an Option or Stock Appreciation Right following the termination of the Participant's Continuous Service (other than for Cause and other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the Securities Act, then the Option or Stock Appreciation Right will terminate on the earlier of (i) the expiration of a total period of time (that need not be consecutive) equal to the applicable post termination exercise period after the termination of the Participant's Continuous Service (as set forth in the applicable award agreement) as extended for any period of time during which the exercise of the Option or Stock Appreciation Right would violate the Securities Act, and (ii) the final expiration of the Option or Stock Appreciation Right as set forth in the applicable Stock Option Agreement or Stock Appreciation Right Agreement.

(b) Unless otherwise provided in a Participant's Option Agreement or Stock Appreciation Right Agreement, if the sale of any Common Stock received on exercise of an Option or Stock Appreciation Right following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's Insider Trading Policy (assuming, for this purpose, that Participant's Continuous Service had not terminated and thus the provisions of the Insider Trading Policy continued to apply to Participant), then the Option or Stock Appreciation Right will terminate on the earlier of (i) the expiration of a period of time (that need not be consecutive) equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service (as set forth in the applicable award agreement) as extended for any period of time during which the sale of the Common Stock received upon exercise of the Option or Stock Appreciation Right would violate the Insider Trading Policy (assuming, for this purpose, that Participant's Continuous Service had not terminated and thus the provisions of the Insider Trading Policy continued to apply to Participant) if, and only if, such violation of the Insider Trading Policy arose during the unmodified post-termination exercise period, or (ii) the final expiration of the term of the Option or Stock Appreciation Right as set forth in the applicable Stock Option Agreement or Stock Appreciation Right Agreement.

ARTICLE 11.

CHANGE IN CONTROL

11.1 Options and Stock Appreciation Rights. In order to preserve a Participant's rights with respect to any outstanding Options or Stock Appreciation Rights in the event of a Change in Control of the Company:

(a) Vesting of all outstanding Options and Stock Appreciation Rights shall accelerate automatically effective as of immediately prior to the consummation of the Change in Control unless the Options or Stock Appreciation Rights are to be assumed by the acquiring or successor entity (or parent thereof) or new options, stock appreciation rights or New Incentives are to be issued in exchange therefor, as provided in subsection (b) below.

(b) Vesting of outstanding Options or Stock Appreciation Rights shall not accelerate if and to the extent that: (i) the Options or Stock Appreciation Rights (including the unvested portion thereof) are to be assumed by the acquiring or successor entity (or parent thereof) or new options or stock appreciation rights of comparable value and containing such terms and provisions as the Administrator in its discretion may consider equitable are to be issued in exchange therefor pursuant to the terms of the Change in Control transaction, or (ii) the Options or Stock Appreciation Rights (including the unvested portion thereof) are to be replaced by the acquiring or successor entity (or parent thereof) with other incentives of comparable value containing such terms and provisions as the Administrator in its discretion may consider equitable under a new incentive program ("New Incentives"). If outstanding Options or Stock Appreciation Rights are assumed, or if new options or stock appreciation rights of comparable value are issued in exchange therefor, then each such Option, new option, Stock Appreciation Right or new stock appreciation right shall be appropriately adjusted, concurrently with the Change in Control, to apply to the number and class of securities or other property that the Participant would have received pursuant to the Change in Control transaction in exchange for the shares that would have been issued upon exercise of the Option or Stock Appreciation Right had the Option or Stock Appreciation Right been exercised immediately prior to the Change in Control and, with respect to Stock Appreciation Rights, payments in respect of such Stock Appreciation Right been made in shares, and appropriate adjustment also shall be made to the Exercise Price or Base Price such that the aggregate Exercise Price of each such Option or new option or Base Price of each Stock Appreciation Right or new stock appreciation right shall remain the same as nearly as practicable and in a manner satisfying the provisions of Sections 409A and 424 of the Code.

(c) If any Option or Stock Appreciation Right is assumed by an acquiring or successor entity (or parent thereof) or a new option or stock appreciation right of comparable value or New Incentive is issued in exchange therefor pursuant to the terms of a Change in Control transaction, then, if so provided in an Option Agreement or Stock Appreciation Right Agreement, the vesting of the Option, new option, Stock Appreciation Right, new stock appreciation right or New Incentive shall accelerate if and at such time as the Participant's service as an employee, director, officer, consultant or other Service Provider to the acquiring or successor entity (or a parent or subsidiary thereof) is terminated involuntarily or voluntarily under certain circumstances within a specified period following consummation of the Change in Control, pursuant to such terms and conditions as shall be set forth in the Option Agreement or Stock Appreciation Right Agreement.

(d) If vesting of outstanding Options or Stock Appreciation Rights will accelerate pursuant to subsection (a) above, the Administrator in its discretion may provide, in connection with the Change in Control transaction, for the purchase or exchange of each Option or Stock Appreciation Right for an amount of cash or other property having a value equal to (i) with respect to each Option, the amount (or "spread") by which, (x) the value of the cash or other property that the Optionee would have received pursuant to the Change in Control transaction in exchange for the shares issuable upon exercise of the Option had the Option been exercised immediately prior to the Change in Control, exceeds (y) the Exercise Price of the Option, and (ii) with respect to each Stock Appreciation Right, the value of the cash or other property that the Participant would have received had the Stock Appreciation Right been exercised immediately prior to the Change in Control.

(e) The Administrator shall have the discretion to provide in each Option Agreement and Stock Appreciation Right Agreement other terms and conditions that relate to (i) vesting of such Option or Stock Appreciation Right in the event of a Change in Control and (ii) assumption of such Options or Stock Appreciation Rights or issuance of comparable securities or New Incentives in the event of a Change in Control. The aforementioned terms and conditions may vary in each Option Agreement and Stock Appreciation Right Agreement, and may be different from and have precedence over the provisions set forth in Sections 11.1(a) - 11.1(d) above.

(f) Outstanding Options and Stock Appreciation Rights shall terminate and cease to be exercisable upon consummation of a Change in Control except to the extent that the Options or Stock Appreciation Rights are assumed by the successor entity (or parent thereof) pursuant to the terms of the Change in Control transaction.

(g) If outstanding Options or Stock Appreciation Rights will not be assumed by the acquiring or successor entity (or parent thereof), the Administrator shall cause written notice of a proposed Change in Control transaction to be given to the Participants who hold Options and Stock Appreciation Rights not less than fifteen (15) days prior to the anticipated effective date of the proposed transaction.

11.2 Restricted Stock Units and Restricted Stock. In order to preserve a Participant's rights with respect to any outstanding Restricted Stock Units or Restricted Stock in the event of a Change in Control of the Company:

(a) All Restricted Stock Units and Restricted Stock shall vest in full effective as of immediately prior to the consummation of the Change in Control, except to the extent that in connection with such Change in Control, the acquiring or successor entity (or parent thereof) provides for the continuance or assumption of Restricted Stock Unit Agreements or Restricted Stock Agreements or the substitution of new agreements of comparable value covering shares of a successor corporation, with appropriate adjustments as to the number and kind of shares.

(b) The Administrator in its discretion may provide in any Restricted Stock Unit Agreement or Restricted Stock Agreement that if, upon a Change in Control, the acquiring or successor entity (or parent thereof) assumes such Restricted Stock Unit Agreement or Restricted Stock Agreement or substitutes new agreements of comparable value and containing such terms and provisions as the Administrator in its discretion may consider equitable covering shares of a successor corporation (with appropriate adjustments as to the number and kind of shares), then the Restricted Stock Units or Restricted Stock or any substituted shares covered thereby shall immediately vest in full, if the Participant's service as an employee, director, officer, consultant or other Service Provider to the acquiring or successor entity (or a parent or subsidiary thereof) is terminated involuntarily or voluntarily under certain circumstances within a specified period following consummation of a Change in Control, pursuant to such terms and conditions as shall be set forth in the Restricted Stock Unit Agreement or Restricted Stock Agreement.

(c) If vesting of outstanding Restricted Stock Units or Restricted Stock will accelerate pursuant to subsection (a) above, the Administrator in its discretion may provide, in connection with the Change in Control transaction, for the purchase or exchange of each Restricted Stock Unit or Restricted Stock for an amount of cash or other property having a value equal to the value of the cash or other property that the Participant would have received had the Restricted Stock vested immediately prior to the Change in Control.

(d) The Administrator shall have the discretion to provide in each Restricted Stock Unit Agreement or Restricted Stock Agreement other terms and conditions that relate to (i) vesting of such Restricted Stock Units or Restricted Stock in the event of a Change in Control and (ii) assumption of such Restricted Stock Unit Agreements or Restricted Stock Agreements or issuance of substitute new agreements of comparable value in the event of a Change in Control. The aforementioned terms and conditions may vary in each Restricted Stock Unit Agreement or Restricted Stock Agreement, and may be different from and have precedence over the provisions set forth in Sections 11.2(a) - 11.2(c) above.

11.3 Dissolution or Liquidation. Except as otherwise provided in an Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement, in the event of a dissolution, liquidation or winding up of the Company, all outstanding Options, Stock Appreciation Rights and Restricted Stock Units will terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition under an award of Restricted Stock or pursuant to early exercise of an Option, may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such award is providing Continuous Service; provided, however, that the Administrator may, in its sole discretion, cause some or all Options, Restricted Stock Units, Restricted Stock and Stock Appreciation Rights to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such awards have not previously expired or terminated) before the dissolution, liquidation or winding up is completed but contingent on its completion.

ARTICLE 12.

AMENDMENT AND TERMINATION OF THE PLAN

12.1 Amendments. The Board may from time to time alter, amend, suspend or terminate this Plan in such respects as the Board may deem advisable. No such alteration, amendment, suspension or termination shall be made which shall substantially affect or impair the rights of any Participant under an outstanding Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement without such Participant's

consent. The Board may alter or amend the Plan to comply with requirements under the Code relating to Incentive Options or other types of options which give Optionees more favorable tax treatment than that applicable to Options granted under this Plan as of the date of its adoption. Upon any such alteration or amendment, any outstanding Option granted hereunder may, if the Administrator so determines and if permitted by applicable law, be subject to the more favorable tax treatment afforded to an Optionee pursuant to such terms and conditions. The Board may also adopt amendments of the Plan relating to certain nonqualified deferred compensation under Section 409A of the Code and/or ensuring the Plan or any awards granted under the Plan are exempt from, or compliant with, the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law.

12.2 Foreign Participants. The Board may from time to time adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Service Providers who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for immaterial modifications to the Plan or any Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

12.3 Plan Termination. Unless this Plan shall theretofore have been terminated, the Plan shall terminate on the tenth (10th) anniversary of the Effective Date and no Options, Restricted Stock Units, Restricted Stock or Stock Appreciation Rights may be granted under the Plan thereafter, but Option Agreements, Restricted Stock Unit Agreements, Restricted Stock Agreement and Stock Appreciation Right Agreements then outstanding shall continue in effect in accordance with their respective terms.

ARTICLE 13.

TAXES

13.1 Withholding. The Company shall have the power to withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy any applicable minimum Federal, state, and local tax withholding requirements with respect to any Options, Restricted Stock Units, Restricted Stock or Stock Appreciation Rights. To the extent permissible under applicable tax, securities and other laws, the Administrator may, in its sole discretion and upon such terms and conditions as it may deem appropriate, permit a Participant to satisfy his or her obligation to pay any such tax, in whole or in part, up to an amount determined on the basis of the highest marginal tax rate applicable to such Participant, by (a) directing the Company to apply shares of Common Stock to which the Participant is entitled as a result of the exercise of an Option or Stock Appreciation Right or vesting of a Restricted Stock Unit or Restricted Stock or (b) delivering to the Company shares of Common Stock owned by the Participant. The shares of Common Stock so applied or delivered in satisfaction of the Participant's tax withholding obligation shall be valued at their Fair Market Value as of the date of measurement of the amount of income subject to withholding.

13.2 Compliance with Section 409A of the Code. Options, Restricted Stock Units, Restricted Stock and Stock Appreciation Rights will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Section 409A of the Code such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Section 409A of the Code, except as otherwise determined in the sole discretion of the Administrator. The Plan and each Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement and Stock Appreciation Right Agreement is intended to meet the requirements of Section 409A of the Code and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Administrator. To the extent that an Option, Restricted Stock Unit, Restricted Stock or Stock Appreciation Right or grant, payment, settlement or deferral thereof is subject to Section 409A of the Code such Option, Restricted Stock Unit, Restricted Stock or Stock Appreciation Right will be granted, paid, settled or deferred in a manner that will meet the requirements of Section 409A of the Code, such that the grant, payment, settlement or deferral thereof will not be subject to the additional tax or interest applicable under Section 409A of the Code. Notwithstanding the generality of the preceding sentence, to the extent any grant, payment, settlement or deferral of an Option Agreement, Restricted Stock Unit Agreement, Restricted Stock Agreement or Stock Appreciation Right Agreement subject to Section 409A is subject to the requirement under Section 409A(a)(2)(B)(i) of the Code that such

grant, payment, settlement or deferral be delayed until six (6) months after Participant's separation from service if Participant is a specified employee within the meaning of the aforesaid section of the Code at the time of such separation from service, then such grant, payment, settlement or deferral will not be made before the date which is six (6) months after the date of such separation from service (or, if earlier, the date of death of such Participant).

ARTICLE 14

MISCELLANEOUS

14.1 Benefits Not Alienable. Other than as provided above, benefits under this Plan may not be assigned or alienated, whether voluntarily or involuntarily. Any unauthorized attempt at assignment, transfer, pledge or other disposition shall be without effect.

14.2 No Enlargement of Employee Rights. This Plan is strictly a voluntary undertaking on the part of the Company and shall not be deemed to constitute a contract between the Company and any Participant to be consideration for, or an inducement to, or a condition of, the employment of any Participant. Nothing contained in the Plan shall be deemed to give the right to any Participant to be retained as an employee of the Company or any Affiliated Company or to interfere with the right of the Company or any Affiliated Company to discharge any Participant at any time. The Company will have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising any right under any outstanding awards under the Plan. Furthermore, the Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Option or any other form of award under the Plan or a possible period in which such Option or other award may not be exercised. The Company has no duty or obligation to reduce the tax consequences of any award granted to a Participant under the Plan.

14.3 Application of Funds. The proceeds received by the Company from the sale of Common Stock pursuant to Option Agreements or Restricted Stock Agreements, except as otherwise provided herein, will be used for general corporate purposes.

14.4 Annual Reports. During the term of this Plan, the Company will furnish to each Participant who does not otherwise receive such materials, copies of all reports, proxy statements and other communications that the Company distributes generally to its stockholders or as otherwise required by applicable law.

14.5 Stockholder Approval. This Plan shall be effective as of the approval of the stockholders of the Company.

14.6 Electronic Delivery. Any reference herein to a "written" agreement or document shall include any agreement or document delivered electronically or posted on the Company's intranet.

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 Quarterly Report on Form 10-Q 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(s) 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

Dated: July 30, 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 Quarterly Report on Form 10-Q 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(s) 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

    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: July 30, 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 Quarterly Report on Form 10-Q of Tandem Diabetes Care, Inc. (the "Company") for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Sheridan, President and 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.

Dated: July 30, 2020

/s/ John F. Sheridan
John F. Sheridan
President, Chief Executive Officer

The *foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Exchange Act, 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 Quarterly Report on Form 10-Q of Tandem Diabetes Care, Inc. (the "Company") for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leigh A. Vosseller, Executive Vice President, Chief Financial Officer and Treasurer 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.

Dated: July 30, 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. § 1350, and is not being filed for purposes of Section 18 of the Exchange Act, 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.