

Semler Scientific, Inc.  
Form 10-Q  
August 02, 2016

**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  
p 1934

For the Quarterly Period Ended June 30, 2016

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 001-36305

**SEMLER SCIENTIFIC, INC.**

(Exact name of Registrant as specified in its Charter)

**Delaware** **26-1367393**  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

**2330 N.W. Everett**  
**Portland, Oregon** **97210**  
(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: **(877) 774-4211**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-accelerated filer  Smaller reporting company

Edgar Filing: Semler Scientific, Inc. - Form 10-Q

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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 29, 2016, there were 5,123,568 shares of the issuer's common stock, \$0.001 par value per share, outstanding.

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>Part I.</u></b> <b><u>Financial Information</u></b>	1
<u>Item 1.</u> <u>Financial Statements</u>	1
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	16
<u>Item 4.</u> <u>Controls and Procedures</u>	16
<b><u>Part II.</u></b> <b><u>Other Information</u></b>	17
<u>Item 1.</u> <u>Legal Proceedings</u>	17
<u>Item 1A.</u> <u>Risk Factors</u>	17
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
<u>Item 3.</u> <u>Defaults upon Senior Securities</u>	17
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	17
<u>Item 5.</u> <u>Other Information</u>	17
<u>Item 6.</u> <u>Exhibits</u>	17
<b><u>Signatures</u></b>	18

Table of Contents

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This quarterly report on Form 10-Q contains forward-looking statements. Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements.

In some cases, you can identify forward-looking statements by terminology, such as “expects,” “anticipates,” “intends,” “estimates,” “plans,” “believes,” “seeks,” “may,” “should,” “continue,” “could” or the negative of such terms or other similar expressions. Accordingly, these statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this report.

You should read this quarterly report and the documents that we reference herein and therein and have filed as exhibits to this report, completely and with the understanding that our actual future results may be materially different from what we expect. You should assume that the information appearing in this quarterly report is accurate as of the date of this report only. Because the risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any forward-looking statements. These risks and uncertainties, along with others, are described above under the heading “Risk Factors” in our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on February 26, 2016. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor 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. We qualify all of the information presented in this quarterly report, and particularly our forward-looking statements, by these cautionary statements.

Table of Contents**PART I—FINANCIAL INFORMATION****Item 1. Financial Statements.****Semler Scientific, Inc.****Condensed Statements of Operations****(In thousands, except share and per share amounts)**

	<b>(Unaudited)</b>		<b>(Unaudited)</b>	
	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	\$ 1,636	\$ 1,303	\$ 3,136	\$ 2,505
Operating expenses:				
Cost of revenue	533	261	950	502
Engineering and product development	182	406	452	715
Sales and marketing	1,028	1,288	2,001	2,495
General and administrative	763	665	1,534	1,460
Total operating expenses	2,506	2,620	4,937	5,172
Loss from operations	(870 )	(1,317 )	(1,801 )	(2,667 )
Other expense:	(96 )	(24 )	(171 )	(46 )
Net loss	\$(966 )	\$(1,341 )	\$(1,972 )	\$(2,713 )
Net loss per share, basic and diluted	\$(0.19 )	\$(0.27 )	\$(0.38 )	\$(0.56 )
Weighted average number of shares used in computing basic and diluted loss per share	5,123,568	4,978,878	5,123,568	4,871,614

See accompanying notes to unaudited condensed financial statements.



Table of Contents**Semler Scientific, Inc.****Condensed Balance Sheets****(In thousands, except share and per share amounts)**

	<i>(Unaudited)</i>	December
	<b>June 30,</b>	31,
	2016	2015
Assets		
Current Assets:		
Cash	\$ 1,022	\$ 405
Trade accounts receivable, net of allowance for doubtful accounts of \$94 and \$183, respectively	607	1,278
Prepaid expenses and other current assets	126	69
Total current assets	1,755	1,752
Assets for lease, net	839	830
Property and equipment, net	452	497
Long-term deposits	15	-
Total assets	\$ 3,061	\$ 3,079
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 430	\$ 839
Accrued expenses	2,183	2,317
Deferred revenue	667	952
Total current liabilities	3,280	4,108
Long-term liabilities:		
Deferred rent	43	43
Accrued interest expense	85	-
Related party loan payable net of debt discount of \$199 and \$0, respectively	1,301	-
Loan payable net of debt discount of \$95 and \$0, respectively	883	-
Total long-term liabilities	2,312	43
Stockholders' deficit:		
Common stock, \$0.001 par value; 50,000,000 shares authorized; 5,148,568 and 5,148,568 shares issued, and 5,123,568 and 5,123,568 outstanding (net of treasury	5	5



Edgar Filing: Semler Scientific, Inc. - Form 10-Q

shares of 25,000 and 25,000), respectively

Additional paid-in capital	21,804		21,291	
Accumulated deficit	(24,340	)	(22,368	)
Total stockholders' deficit	(2,531	)	(1,072	)
Total liabilities and stockholders' deficit	\$ 3,061		\$ 3,079	

See accompanying notes to unaudited condensed financial statements.

Table of Contents**Semler Scientific, Inc.****Condensed Statements of Cash Flows****(In thousands)**

	<i>(Unaudited)</i>	
	<b>Six months ended June 30</b>	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,972 )	\$ (2,713 )
Reconciliation of Net Loss to Net Cash Used in Operating Activities:		
Amortization of debt discount	84	37
Depreciation	221	129
Loss on disposal of assets for lease	136	44
Allowance for doubtful accounts	18	73
Stock-based compensation expense	135	63
Changes in Operating Assets and Liabilities:		
Trade accounts receivable	653	20
Prepaid expenses and other current assets	(72 )	9
Accounts payable	(409 )	27
Accrued expenses	(49 )	21
Deferred revenue	(285 )	(132 )
Net Cash Used in Operating Activities	(1,540 )	(2,422 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property and equipment	(15 )	(45 )
Purchase of assets for lease	(306 )	(261 )
Net Cash Used in Investing Activities	(321 )	(306 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common stock	-	999
Stock options exercised	-	13
Offering costs	-	(100 )
Proceeds from loans payable	2,478	-
Net Cash Provided by Financing Activities	2,478	912
<b>INCREASE (DECREASE) IN CASH</b>	<b>617</b>	<b>(1,816 )</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>405</b>	<b>4,156</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 1,022</b>	<b>\$ 2,340</b>
Cash paid for interest	\$ -	\$ 13

Edgar Filing: Semler Scientific, Inc. - Form 10-Q

Supplemental disclosure of noncash financing activity:

Fair value of warrants issued to lenders	\$ 363	\$ -
--	--------	------

See accompanying notes to unaudited condensed financial statements

Table of Contents

**Semler Scientific, Inc.**

**Notes to Condensed Financial Statements**

**Unaudited**

**(In thousands, except share and per share amounts)**

**1. Basis of Presentation**

Semler Scientific, Inc., a Delaware corporation (“Semler” or “the Company”), prepared the unaudited interim financial statements included in this report in accordance with United States generally accepted accounting principles (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company’s annual report on Form 10-K filed with the SEC on February 26, 2016 (the “Annual Report”). The balance sheet as of December 31, 2015 included in this report has been derived from the audited financial statements included in the Annual Report. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for any future period, including the full year. Items in prior period financial statements have been adjusted to conform with the current period presentation.

**2. Going Concern**

The Company has incurred recurring losses since inception and expects to continue to incur losses as a result of costs and expenses related to the Company’s marketing and other promotional activities, research and continued development of its product. As of June 30, 2016, the Company has negative working capital of \$1,525, cash of \$1,022 and stockholders’ deficit of \$2,531. The Company’s principal sources of cash have included the issuance of equity securities, borrowings under loan agreements, revenue from leasing its product and providing testing services. To increase revenue, the Company’s operating expenses will continue to grow and, as a result, the Company will need to generate significant additional revenue to achieve profitability.

The Company’s financial statements as of and for the three and six months ended June 30, 2016 have been prepared under the assumption that the Company will continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to generate additional revenue. The financial statements do not include any adjustments

that might result from the outcome of this uncertainty. The Company can give no assurances that additional capital that the Company is able to obtain, if any, will be sufficient to meet the Company's needs. If the Company is unable to raise additional capital or increase revenue from leasing its product and providing testing services within the next twelve months to continue to fund operations at its current cash expenditure levels, the Company's operations will need to be curtailed. The foregoing conditions raise substantial doubt about the Company's ability to continue as a going concern.

### 3. Assets for Lease, net

Assets for lease consist of the following:

	June 30, 2016	December 31, 2015
Assets for lease	\$ 1,333	\$ 1,280
Less: Accumulated Depreciation	(494 )	(450 )
Assets for lease, net	\$ 839	\$ 830

Depreciation expense amounted to \$81 and \$66 for the three months ended June 30, 2016 and June 30, 2015, respectively. Depreciation expense amounted to \$161 and \$123 for the six months ended June 30, 2016 and June 30, 2015, respectively. Reduction to accumulated depreciation for returned items was \$88 and \$27 for the three months ended June 30, 2016 and June 30, 2015, respectively. Reduction to accumulated depreciation for returned items was \$117 and \$41 for the six months ended June 30, 2016 and June 30, 2015, respectively.

Table of Contents**Semler Scientific, Inc.****Notes to Condensed Financial Statements****Unaudited****(In thousands, except share and per share amounts)****4. Property and Equipment, net**

Property and equipment, net consists of the following:

	June 30, 2016	December 31, 2015
Property and equipment	\$ 557	\$ 542
Less: accumulated depreciation	(105 )	(45 )
Property and equipment, net	\$ 452	\$ 497

Depreciation expense amounted to \$30 and \$4 for the three months ended June 30, 2016 and 2015, respectively. Depreciation expense amounted to \$60 and \$6 for the six months ended June 30, 2016 and 2015, respectively.

**5. Accrued Expenses**

Accrued expenses consist of the following:

	June 30, 2016	December 31, 2015
Offering Costs	\$ 227	\$ 227
Compensation	1,436	1,093
Miscellaneous Accruals	520	997
Total Accrued Expenses	\$ 2,183	\$ 2,317

The accumulated offering costs that were accrued pertain to consulting fees associated with securing equity financing for the Company prior to the initial public offering. Prior to becoming Chief Executive Officer (“CEO”), the Company’s current CEO performed consulting services for the Company, which included managing finance, sales, marketing, operational and strategic planning for the Company, as well as assistance and strategic guidance in securing financing. The Company has agreed to a payment date of December 31, 2016 for these fees.

## **6. Commitments and Contingencies**

### **Facilities Leases**

Facilities lease expense recognized by the Company was \$22 and \$65 for the three months ended June 30, 2016 and 2015, respectively. Facilities lease expense recognized by the Company was \$37 and \$101 for the six months ended June 30, 2016 and 2015, respectively.

On September 23, 2014, the Company entered into a 36-month lease agreement for office space for the sales and marketing team located in Menlo Park, CA. The lease term commenced February 1, 2015 and is effective through January 31, 2018. Payments required under the terms of the lease are \$17.0 per month from February 2015 to January 2016, \$17.5 per month from February 2016 to January 2017, and \$18.0 per month from February 2017 to January 2018. The Company anticipates total future lease payments of \$104.8 for the year ended December 31, 2016; \$215.4 for the year ended December 31, 2017; and \$18.0 for the year ended December 31, 2018. On July 15, 2015, the Company entered into a 30-month sublease agreement for the Menlo Park office space, which commenced August 1, 2015 and is effective through the term of the lease, January 31, 2018. Payments required to the Company under the terms of the sublease are \$15.5 per month from August 2015 to July 2016,

Table of Contents

**Semler Scientific, Inc.**

**Notes to Condensed Financial Statements**

**Unaudited**

**(In thousands, except share and per share amounts)**

\$16.0 per month from August 2016 to July 2017, and \$16.5 per month from August 2017 to January 2018. The Company anticipates receipt of total future sublease payments of \$95.5 for the year ended December 31, 2016; \$194.4 for the year ended December 31, 2017; and \$16.5 for the year ended December 31, 2018.

**Loans Payable**

*Loans from Related Parties*

On January 15, 2016, the Company entered into a loan agreement with the Chang Family Trust, for which William H.C. Chang, a significant stockholder, is co-trustee. Pursuant to the loan agreement, the Company obtained a \$1,000 unsecured loan for a 24-month term at a fixed interest rate of 10% p.a. Under the loan agreement, the Company will pay \$1,000 of principal plus all accrued and unpaid interest at maturity. The Company may prepay the notes at any time prior to maturity without penalty. The notes must be repaid prior to maturity in the event of default, and the Company agreed not to incur additional indebtedness in excess of \$50 without the lender's prior consent, which is not to be unreasonably withheld. In connection therewith, the Company issued the Chang Family Trust a two-year warrant to purchase 114,286 shares of common stock at an exercise price of \$1.75 per share. The warrants may not be exercised absent receipt of stockholder approval if after such exercise the holder would be the beneficial owner of more than 19.99% of the Company's common stock. The relative fair value of this warrant was recorded as a debt discount on the Company's balance sheet and partially offsets the total balance due for loans payable. As of the date of this filing, the Company is in compliance with all terms of this loan.

On January 21, 2016, the Company entered into a loan agreement with the Chang Family Trust, for which William H.C. Chang, a significant stockholder, is co-trustee. Pursuant to the loan agreement, the Company obtained a \$500 unsecured loan for a 24-month term at a fixed interest rate of 5% p.a. Under the loan agreement, the Company will pay \$500 of principal plus all accrued and unpaid interest at maturity. The Company may prepay the notes at any time prior to maturity without penalty. The notes must be repaid prior to maturity in the event of default, and the Company agreed not to incur additional indebtedness in excess of \$50 without the lender's prior consent, which is not to be unreasonably withheld. In connection therewith, the Company issued the Chang Family Trust a two-year warrant to purchase 114,286 shares of common stock at an exercise price of \$1.75 per share. The warrants may not be exercised



absent receipt of stockholder approval if after such exercise the holder would be the beneficial owner of more than 19.99% of the Company's common stock. The relative fair value of this warrant was recorded as a debt discount on the Company's balance sheet and partially offsets the total balance due for loans payable. As of the date of this filing, the Company is in compliance with all terms of this loan.

#### *Other Loans*

On March 31, 2016, the Company entered into a loan agreement with an accredited investor. Pursuant to the loan agreement, the Company obtained a \$700 unsecured loan for a 24-month term at a fixed interest rate of 10% p.a. Under the loan agreement, the Company will pay \$700 of principal plus all accrued but unpaid interest at maturity. The notes may be prepaid at any time prior to maturity without penalty. The notes must be repaid prior to maturity in the event of default. In connection therewith, the Company issued the accredited investor a two-year warrant to purchase 79,459 shares of common stock at an exercise price of \$1.85 per share. The warrants may not be exercised absent receipt of stockholder approval if after such exercise the holder would be the beneficial owner of more than 4.99% of the Company's common stock. The relative fair value of this warrant was recorded as a debt discount on the Company's balance sheet and partially offsets the total balance due for loans payable. As of the date of this filing, the Company is in compliance with all terms of this loan.

On April 5, 2016, the Company entered into a loan agreement with an accredited investor. Pursuant to the loan agreement, the Company obtained a \$160 unsecured loan for a 24-month term at a fixed interest rate of 10% p.a. Under the loan agreement, the Company will pay \$160 of principal plus all accrued but unpaid interest at maturity. The notes may be prepaid at any time prior to maturity without penalty. The notes must be repaid prior to maturity in the event of default. In connection therewith, the Company issued the accredited investor a two-year warrant to purchase 18,162 shares of common stock at an exercise price of \$1.85 per share. The warrants may not be exercised absent receipt of stockholder approval if after such exercise the holder would be the beneficial owner of more than 4.99% of the Company's common stock. The relative fair value of this warrant was recorded as a debt discount on the Company's balance sheet and partially offsets the total balance due for loans payable. As of the date of this filing, the Company is in compliance with all terms of this loan.

On May 20, 2016, the Company entered into a loan agreement with an accredited investor. Pursuant to the loan agreement, the Company obtained a \$80 unsecured loan for a 24-month term at a fixed interest rate of 10% p.a. Under the loan agreement, the Company will pay \$80 of principal plus all accrued but unpaid interest at maturity. The notes may be prepaid at any time prior to maturity without penalty. The notes must be repaid prior to maturity in the event of default. In connection therewith, the

Table of Contents

**Semler Scientific, Inc.**

**Notes to Condensed Financial Statements**

**Unaudited**

**(In thousands, except share and per share amounts)**

Company issued the accredited investor a two-year warrant to purchase 9,081 shares of common stock at an exercise price of \$1.85 per share. The warrants may not be exercised absent receipt of stockholder approval if after such exercise the holder would be the beneficial owner of more than 4.99% of the Company's common stock. The relative fair value of this warrant was recorded as a debt discount on the Company's balance sheet and partially offsets the total balance due for loans payable. As of the date of this filing, the Company is in compliance with all terms of this loan.

The Company uses the Black-Scholes pricing model to determine the relative fair market value of warrants. The relative fair market value of each warrant is estimated on the date of grant. The relative fair value of the warrants granted is estimated on the date of grant using the Black-Scholes pricing model and the following assumptions for the periods presented: