

TANDEM DIABETES CARE INC
Form 10-Q
April 30, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

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 | (I.R.S. Employer |
| incorporation or organization) | Identification No.) |
| 11045 Roselle Street | |
| San Diego, California | 92121 |
| (Address of principal executive offices) | (Zip Code) |

(858) 366-6900

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Registrant's telephone number, including area code

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

| Title of Each Class | Name of Exchange on Which Registered |
|---|--------------------------------------|
| Common Stock, par value \$0.001 per share | The NASDAQ Stock Market LLC |

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

Indicate by check mark whether the registrant has submitted electronically 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 (§232.405 of this chapter) 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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 April 27, 2015, there were 29,801,681 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 BALANCE SHEETS

(In thousands except par values)

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|--|----------------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 62,549 | \$31,176 |
| Restricted cash | 2,000 | 2,000 |
| Short-term investments | 53,834 | 36,106 |
| Accounts receivable, net | 5,226 | 7,652 |
| Inventory, net | 13,581 | 11,913 |
| Prepaid and other current assets | 1,960 | 1,904 |
| Total current assets | 139,150 | 90,751 |
| Property and equipment, net | 12,928 | 12,581 |
| Patents, net | 2,355 | 2,441 |
| Other long term assets | 692 | 691 |
| Total assets | \$ 155,125 | \$106,464 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,087 | \$1,949 |
| Accrued expense | 2,586 | 2,920 |
| Employee-related liabilities | 8,789 | 9,722 |
| Deferred revenue | 803 | 840 |
| Other current liabilities | 2,505 | 2,663 |
| Total current liabilities | 18,770 | 18,094 |
| Notes payable—long-term | 29,459 | 29,440 |
| Deferred rent—long-term | 2,546 | 2,700 |
| Other long-term liabilities | 2,102 | 1,658 |
| Total liabilities | 52,877 | 51,892 |
| Commitments and contingencies | | |
| Common stock, \$0.001 par value; 100,000 shares authorized, 29,780 and 23,655 shares issued and outstanding at March 31, 2015 (unaudited) and December 31, 2014, respectively. | 30 | 24 |
| Additional paid-in capital | 372,102 | 303,255 |
| Accumulated other comprehensive income | 39 | 8 |
| Accumulated deficit | (269,923) | (248,715) |

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| | | |
|--|------------|------------|
| Total stockholders' equity | 102,248 | 54,572 |
| Total liabilities and stockholders' equity | \$ 155,125 | \$ 106,464 |

See accompanying notes to unaudited condensed financial statements.

TANDEM DIABETES CARE, INC.

CONDENSED STATEMENTS OF OPERATIONS and comprehensive loss

(Unaudited)

(In thousands, except per share data)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2015 | 2014 |
| Sales | \$12,308 | \$8,065 |
| Cost of sales | 9,500 | 7,199 |
| Gross profit | 2,808 | 866 |
| Operating expenses: | | |
| Selling, general and administrative | 19,355 | 18,041 |
| Research and development | 3,863 | 3,663 |
| Total operating expenses | 23,218 | 21,704 |
| Operating loss | (20,410) | (20,838) |
| Other income (expense), net: | | |
| Interest and other income | 99 | 18 |
| Interest and other expense | (897) | (1,142) |
| Total other income (expense), net | (798) | (1,124) |
| Net loss | \$(21,208) | \$(21,962) |
| Other Comprehensive Loss: | | |
| Unrealized gain on short-term investments | \$39 | \$14 |
| Comprehensive loss | \$(21,169) | \$(21,948) |
| Net loss per share, basic and diluted | \$(0.83) | \$(0.96) |
| Weighted average shares used to compute basic and diluted net loss per share | 25,522 | 22,936 |

See accompanying notes to unaudited condensed financial statements.

TANDEM DIABETES CARE, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2015 | 2014 |
| Operating activities | | |
| Net loss | \$(21,208) | \$(21,962) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | 1,182 | 921 |
| Interest expense related to amortization of debt discount and debt issuance costs | 35 | 93 |
| Provision for allowance for doubtful accounts | (31) | 54 |
| Provision for inventory reserve | — | 260 |
| Amortization of premium/discount on short-term investments | (18) | (6) |
| Stock-based compensation expense | 3,773 | 3,771 |
| Other | (60) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 2,457 | 1,821 |
| Inventory, net | (1,658) | (188) |
| Prepaid and other current assets | (56) | (118) |
| Other long term assets | (17) | — |
| Accounts payable | 1,354 | (481) |
| Accrued expense | (260) | (385) |
| Employee-related liabilities | (933) | 699 |
| Deferred revenue | (37) | (29) |
| Other current liabilities | (160) | (1,276) |
| Deferred rent | (151) | (67) |
| Other long term liabilities | 366 | (67) |
| Net cash used in operating activities | (15,422) | (16,960) |
| Investing activities | | |
| Purchase of short-term investments | (39,099) | (28,833) |
| Proceeds from sales and maturities of short-term investments | 21,500 | — |
| Purchase of property and equipment | (600) | (1,620) |
| Purchase of patents | (74) | (173) |
| Net cash used in investing activities | (18,273) | (30,626) |
| Financing activities | | |
| Proceeds from issuance of preferred stock for cash, net of offering costs | — | 27 |
| Proceeds from public offering, net of offering costs | 64,851 | — |
| Proceeds from issuance of common stock | 217 | — |
| Net cash provided by financing activities | 65,068 | 27 |
| Net increase (decrease) in cash and cash equivalents | 31,373 | (47,559) |
| Cash and cash equivalents at beginning of period | 31,176 | 124,385 |
| Cash and cash equivalents at end of period | \$62,549 | \$76,826 |
| Supplemental disclosures of cash flow information | | |
| Interest paid | \$863 | \$1,050 |
| Income taxes paid | \$18 | \$88 |

Supplemental schedule of noncash investing and financing activities

| | | |
|---|---------|-------|
| Property and equipment included in accounts payable | \$1,638 | \$149 |
|---|---------|-------|

See accompanying notes to unaudited condensed financial statements.

TANDEM DIABETES CARE, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

The Company

Tandem Diabetes Care, Inc. is a medical device company focused on the design, development and commercialization of products for people with insulin-dependent diabetes. Unless the context requires otherwise, the terms the “Company” or “Tandem” refer to Tandem Diabetes Care, Inc.

The Company designed and commercialized its flagship product, the t:slim Insulin Delivery System, or t:slim, based on its proprietary technology platform and unique consumer-focused approach. The U.S. Food and Drug Administration (FDA) cleared t:slim in November 2011 and the Company commenced commercial sales of t:slim in the United States in August 2012. In January 2015, the Company received clearance from the FDA, to commercialize its next product, the t:flex Insulin Delivery System, or t:flex, for people with greater insulin needs. The Company intends to begin commercial sales of t:flex in the United States during the second quarter of 2015.

Tandem was originally incorporated in the state of Colorado on January 27, 2006 under the name Phluid, Inc. On January 7, 2008, the Company was reincorporated in the state of Delaware for the purposes of changing its legal name from Phluid, Inc. to Tandem Diabetes Care, Inc. and changing its state of incorporation from Colorado to Delaware.

Basis of Presentation

The Company has prepared the accompanying unaudited condensed financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and with 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 financial statements should be read in conjunction with the Company's audited financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, from which the balance sheet information herein was derived.

Voluntary Recall

On January 10, 2014, the Company announced a voluntary recall of select lots of cartridges used with t:slim that may have been at risk of leaking. The cause of the recall was identified during the Company's internal product testing. The recall was expanded on January 20, 2014 to include additional lots of affected cartridges used with t:slim. The Company has incurred approximately \$1.7 million in direct costs associated with the recall. The Company recorded a cost of sales charge of approximately \$1.3 million in the fourth quarter of 2013 and recorded a cost of sales charge for the remainder in the first quarter of 2014 for affected cartridges shipped in 2014. The total cost of the recall consisted of approximately \$0.7 million associated with the return and replacement of affected cartridges in the field and approximately \$1.0 million for the write-off of affected cartridges within the Company's internal inventory. As of December 31, 2014, the FDA determined that the recall is terminated and the Company does not currently expect any further direct financial impact of the recall beyond these costs.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities in the Company's financial statements and accompanying notes as of the date of the financial statements. Actual results could materially differ from those estimates and assumptions.

Restricted Cash

Restricted cash as of March 31, 2015 and December 31, 2014 was primarily composed of a \$2.0 million minimum cash balance requirement in connection with the Capital Royalty Term Loan (see Note 6 “Loan Agreements”).

Accounts Receivable