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, 2021

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 incorporation or organization)	(I.R.S. Employer Identification No.)

2340-2348 Walsh Avenue, Suite 2344
Santa Clara, CA 95051
(Address of principal executive offices) (Zip Code)
(877) 774-4211
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-Accelerated Filer	☒	Smaller Reporting Company	☒
Emerging growth company	☐		

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

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

As of August 2, 2021, there were 6,753,382 shares of the issuer's common stock, $0.001 par value per share, outstanding.

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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. 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. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this report. 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, including risks associated with:

- implementation of our business strategy and the fact that we actively market only one FDA-cleared product and may not benefit from our recent investments in other companies developing complementary products;
- the failure of physicians and other customers to widely adopt our products, or to determine that our product provides a safe and effective alternative to existing ABI devices;
- the fact that our testing product is generally but not specifically approved for reimbursement under any third-party payor codes;
- our reliance on the talents of a small number of key personnel, and a small direct sales force;
- not requiring customers to enter into long-term licenses;
- concentration of our revenues and accounts receivable with a limited number of customers;
- our reliance on a small number of independent suppliers and facilities for the manufacturing of our product;
- our business being subject to many laws and government regulations, including governing the manufacture and sale of medical devices, patient data, and others;
- our ability to protect our intellectual property;
- impacts of the ongoing Covid-19 pandemic; and
- the other factors set forth under the caption “Risk Factors” in our annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 9, 2021.

Because the risks and uncertainties referred to above and in our SEC reports 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.

You should read this quarterly report and the documents that we reference herein and therein and have filed as exhibits to this report and our other filings with the SEC. You should assume that the information appearing in this quarterly report is accurate as of the date of this quarterly report only. 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.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

Semler Scientific, Inc.
Condensed Statements of Income
Unaudited
(In thousands of U.S. Dollars, except share and per share data)

	For the three months ended June 30, 2021	For the three months ended June 30, 2020	For the six months ended June 30, 2021	For the six months ended June 30, 2020
Revenues	$ 14,311	$ 6,373	$ 27,494	$ 15,803
Operating expenses:				
Cost of revenues	996	700	2,575	1,550
Engineering and product development	947	762	1,640	1,605
Sales and marketing	3,622	2,473	6,439	5,168
General and administrative	2,282	1,478	4,358	3,069
Total operating expenses	7,847	5,413	15,012	11,392
Income from operations	6,464	960	12,482	4,411
Interest income	3	1	6	3
Other income	6	29	5	26
Other income	9	30	11	29
Pre-tax net income	6,473	990	12,493	4,440
Income tax (benefit) provision	(215)	(85)	928	692
Net income	$ 6,688	$ 1,075	$ 11,565	$ 3,748
Net income per share, basic	$ 1.00	$ 0.16	$ 1.72	$ 0.57
Weighted average number of shares used in computing basic income per share	6,702,258	6,548,215	6,706,678	6,540,755
Net income per share, diluted	$ 0.83	$ 0.13	$ 1.42	$ 0.47
Weighted average number of shares used in computing diluted income per share	8,092,459	8,035,048	8,130,971	8,050,394

See accompanying notes to unaudited condensed financial statements.

Semler Scientific, Inc.
Condensed Balance Sheets
(In thousands of U.S. Dollars, except share and per share data)

	June 30, 2021 Unaudited	December 31, 2020
Assets		
Current Assets:		
Cash	$ 28,511	$ 22,079
Trade accounts receivable, net of allowance for doubtful accounts of $61 and $61, respectively	4,751	2,808
Inventory	1,715	340
Prepaid expenses and other current assets	5,756	1,376
Total current assets	40,733	26,603
Assets for lease, net	1,731	1,941
Property and equipment, net	411	261
Other non-current assets	373	418
Long-term investments	821	3,051
Long-term deferred tax assets	1,920	2,365
Total assets	$ 45,989	$ 34,639
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 500	$ 677
Accrued expenses	4,421	2,798
Deferred revenue	896	963
Other short-term liabilities	78	76
Total current liabilities	5,895	4,514
Long-term liabilities:		
Other long-term liabilities	286	332
Total long-term liabilities	286	332
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 6,819,304, and 6,725,422 shares issued, and 6,753,382 and 6,700,422 shares outstanding (treasury shares of 65,922 and 25,000, respectively)	7	7
Additional paid-in capital	20,563	22,113
Retained earnings	19,238	7,673
Total stockholders' equity	39,808	29,793
Total liabilities and stockholders' equity	$ 45,989	$ 34,639

See accompanying notes to unaudited condensed financial statements.

Semler Scientific, Inc.
Statements of Stockholders' Equity
Unaudited
(In thousands of U.S. Dollars, except share and per share data)

For the Three Months Ended June 30, 2020

	Common Stock Shares Issued	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	(Accumulated Deficit)	Total Stockholders' Equity
Balance at March 31, 2020	**6,559,076**	**$ 7**	**(25,000)**	**$ —**	**$ 19,470**	**$ (3,661)**	**$ 15,816**
Stock option exercises	29,100	—	—	—	67	—	67
Stock-based compensation	—	—	—	—	61	—	61
Net income	—	—	—	—	—	1,075	1,075
Balance at June 30, 2020	**6,588,176**	**$ 7**	**(25,000)**	**$ —**	**$ 19,598**	**$ (2,586)**	**$ 17,019**

For the Three Months Ended June 30, 2021

	Common Stock Shares Issued	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at March 31, 2021	**6,745,806**	**$ 7**	**(25,000)**	**$ —**	**$ 22,711**	**$ 12,550**	**$ 35,268**
Exercise of put option in private Company #2 (Note 6)	—		(40,922)	—	(2,230)	—	(2,230)
Stock option exercises	73,498	—	—	—	35	—	35
Stock-based compensation	—	—	—	—	47	—	47
Net income	—	—	—	—	—	6,688	6,688
Balance at June 30, 2021	**6,819,304**	**$ 7**	**(65,922)**	**$ —**	**$ 20,563**	**$ 19,238**	**$ 39,808**

For the Six Months Ended June 30, 2020

	Common Stock Shares Issued	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	(Accumulated Deficit)	Total Stockholders' Equity
Balance at December 31, 2019	**6,556,221**	**$ 7**	**(25,000)**	**$ —**	**$ 19,400**	**$ (6,334)**	**$ 13,073**
Stock option exercises	31,955	—	—	—	70	—	70
Stock-based compensation	—	—	—	—	128	—	128
Net income	—	—	—	—	—	3,748	3,748
Balance at June 30, 2020	**6,588,176**	**$ 7**	**(25,000)**	**$ —**	**$ 19,598**	**$ (2,586)**	**$ 17,019**

For the Six Months Ended June 30, 2021

	Common Stock Shares Issued	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2020	**6,725,422**	**$ 7**	**(25,000)**	**$ —**	**$ 22,113**	**$ 7,673**	**$ 29,793**
Exercise of put option in private Company #2 (Note 6)	—		(40,922)	—	(2,230)	—	(2,230)
Employee stock grant	5,400	—	—	—	537	—	537
Stock option exercises	88,482	—	—	—	45	—	45
Stock-based compensation	—	—	—	—	98	—	98
Net income	—	—	—	—	—	11,565	11,565
Balance at June 30, 2021	**6,819,304**	**$ 7**	**(65,922)**	**$ —**	**$ 20,563**	**$ 19,238**	**$ 39,808**

See accompanying notes to unaudited condensed financial statements accompanying notes to unaudited condensed financial statements

Semler Scientific, Inc.
Condensed Statements of Cash Flows
Unaudited
(In thousands of U.S. Dollars)

	For the six months ended June 30 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,565	$ 3,748
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Depreciation	310	235
Deferred tax expense	445	596
Loss on disposal of assets for lease	124	125
Allowance for doubtful accounts	9	36
Stock-based compensation expense	635	128
Changes in Operating Assets and Liabilities:		
Trade accounts receivable	(1,952)	2,468
Inventory	(1,375)	(24)
Prepaid expenses and other current assets	(4,381)	(408)
Other non-current assets	45	—
Accounts payable	(177)	(131)
Accrued expenses	1,625	(573)
Other current and non-current liabilities	(44)	—
Deferred revenue	(67)	(142)
Net Cash Provided by Operating Activities	6,762	6,058
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(237)	(100)
Purchase of assets for lease	(138)	(123)
Net Cash Used in Investing Activities	(375)	(223)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of stock options	45	70
Net Cash Provided by Financing Activities	45	70
INCREASE IN CASH	6,432	5,905
CASH, BEGINNING OF PERIOD	22,079	7,741
CASH, END OF PERIOD	$ 28,511	$ 13,646
Supplemental Disclosure of Cash Flow Information:		
Exercised put option of 211,928 common stock in private Company #2 for 40,922 common stock of the Company	$ 2,230	—

See accompanying notes to unaudited condensed financial statements

Semler Scientific, Inc.
Notes to Condensed Financial Statements
Unaudited
(In thousands of U.S. Dollars, except share and per share data)

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 ("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 for the year ended December 31, 2020 filed with the SEC on March 9, 2021 (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.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

COVID-19

In the first quarter of 2020, the World Health Organization ("WHO") declared the novel coronavirus ("COVID-19") outbreak a pandemic. The outbreak of COVID-19 resulted in travel restrictions, quarantines, "stay-at-home" and "shelter-in-place" orders and extended shutdown of certain businesses around the world. While restrictions began to ease in the second quarter of 2020 and activities began to resume, continued outbreaks both in the United States and globally could lead to restrictions being reimplemented. In the first half of 2020, the Company's revenues, primarily from variable-fee licenses, were negatively impacted by the COVID-19 pandemic. In the second half of 2020 and the first half of 2021, the Company's revenues, primarily from variable-fee licenses, rebounded to and even exceeded pre-COVID-19 levels. The extent and duration of the pandemic is unknown, and the future effects on the Company's business are uncertain and difficult to predict. The Company is continuing to monitor the events and circumstances surrounding the COVID-19 pandemic, which may require adjustments to the Company's estimates and assumptions in the future.

Recently Issued Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by removing certain exceptions to the general principles for income taxes. This update is effective for the Company's annual periods beginning after December 15, 2020, including interim periods within those fiscal years. The Company adopted the new standard on January 1, 2021 and determined that the adoption of this new accounting guidance did not have a material impact on its financial statements.

In January 2020, the FASB issued ASU No. 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815).* The amendments in this ASU clarify the interaction between the accounting for investments in equity securities, investment in equity method and certain derivatives instruments. The ASU is expected to reduce diversity in practice and increase comparability of the accounting for these interactions. This ASU is effective for fiscal years beginning after December 15, 2020. The Company adopted the new standard on January 1, 2021 and determined that the adoption of this new accounting guidance did not have a material impact on its financial statements.

In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*. This ASU is the final update of the 2019 proposed ASU, Codification Improvements, of which various topics in the Codification are amended, clarified, simplified, or otherwise modified to improve the Codification. The amendments in Section B of this ASU improve the Codification by ensuring that all guidance

Semler Scientific, Inc.
Notes to Condensed Financial Statements
Unaudited
(In thousands of U.S. Dollars, except share and per share data)

that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the disclosure section of the Codification. The amendments in Section C of this ASU are varied in nature and may affect the application of the guidance in cases which the original guidance may have been unclear. The amendments in Sections B and C of this ASU are effective for the Company's annual periods beginning after December 15, 2020, and the amendments should be applied retrospectively, and should be applied at the beginning of the period that includes the adoption date. The Company adopted the new standard on January 1, 2021 and determined that the adoption of this new accounting guidance did not have a material impact on its financial statements.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("Topic 326").* This ASU requires timelier recording of credit losses on loans and other financial instruments held. Instead of reserves based on a current probability analysis, Topic 326 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. All organizations will now use forward-looking information to better inform their credit loss estimates. Topic 326 requires enhanced disclosures regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide information about the amounts recorded in the financial statements. In addition, Topic 326 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, to introduce amendments which will affect the recognition and measurement of financial instruments, including derivatives and hedging. In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments – Credit Losses (Topic 326);* Targeted Transition Relief. The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments upon adoption of Topic 326. This standard and related amendments are effective for the Company's fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company will adopt the new standard in the first quarter of fiscal year 2023. The Company does not anticipate this new standard will have a material impact on its financial statements.

In March 2020, the FASB issued ASU No. 2020-03, *Codification Improvements to Financial Instruments*. This ASU improves and clarifies various financial instruments topics, including the current expected credit losses standard issued in 2016 (ASU No. 2016-13). The ASU includes seven different issues that describe the areas of improvement and the related amendments to GAAP, intended to make the standards easier to understand and apply by eliminating inconsistencies and providing clarifications. The amendments have different effective dates. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This ASU provides optional expedient and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In response to the concerns about structural risks of interbank offered rates and, particularly, the risk of cessation of the London Interbank Offered Rate, regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The ASU provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. The ASU can be adopted no later than December 1, 2022, with early adoption permitted. The Company has not yet adopted this ASU and is evaluating the effect of adopting this new accounting guidance.

In August 2020, the FASB issued ASU No. 2020-06, *Debt--Debt with Conversion and Other Options (Subtopic 470-20)* and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40). The amendments in this ASU affect entities that issue convertible instruments and/or contracts in an entity's own equity. For contracts in an entity's own equity, the contracts primarily affected are freestanding instruments and embedded features that are accounted for as derivatives under the current guidance because of failure to meet the settlement conditions of the derivatives scope exception related to certain requirements of the settlement assessment. The FASB simplified the settlement assessment by removing the requirements (1) to consider whether the contract would be settled in

Semler Scientific, Inc.
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registered shares, (2) to consider whether collateral is required to be posted, and (3) to assess shareholder rights. Those amendments also affect the assessment of whether an embedded conversion feature in a convertible instrument qualifies for the derivatives scope exception. Additionally, the amendments in this ASU affect the diluted EPS calculation for instruments that may be settled in cash or shares and for convertible instruments. The ASU reduces the number of accounting models for convertible debt instruments and convertible preferred stock by eliminating the beneficial conversion feature model and cash conversion model. As compared with current GAAP, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument. The interest rate of more convertible debt instruments will be closer to the coupon interest rate. This ASU is effective for the Company’s fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company has not yet adopted this ASU and is evaluating the effect of adopting this new accounting guidance.

In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848)*. This ASU clarifies the scope of Topic 848 so that derivatives affected by the discounting transition due to reference rate reform initiatives are explicitly eligible for certain optional expedients and exceptions in Topic 84. In addition, to efficiently address another emerging issue related reference rate reform and respond to stakeholder feedback on the proposed feedback on the proposed update on this project, the Board decided to clarify that a receive-variable-rate, pay-variable-rate cross-currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as of the result of reference rate reform. The amendments in this update are elective and apply to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The amendments also optionally apply to all entities that designate receive-variable-rate, pay-variable-rate cross-currency interest rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform. An entity may elect to apply the amendments in this update on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final update, up to the date that financial statements are available to be issued. The amendments in this update do not apply to contract modifications made after December 31, 2022, new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship (including periods after December 31, 2022). The Company has not yet adopted this ASU and is evaluating the effect of adopting this new accounting guidance.

In May 2021, the FASB issued ASU No. 2021-04, Earnings Per Share (Topic 260), Debt—*Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40) Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. This update provides guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic. This update is effective for the Company’s fiscal years beginning after December 15, 2021. The Company is evaluating the effect of adopting this new accounting guidance but does not expect adoption will have a material impact on the Company's financial statements.

2. Variably-Priced Revenue

The Company recognizes variable-fee licenses (i.e., fee per test) and sales of hardware equipment and accessories in accordance with Topic 606. Total fees from variable-fee licenses represent approximately $6,504 and $290 for the three months ended June 30, 2021 and 2020, respectively. Total fee from variable-fee licenses represents approximately $12,162 and $2,992 for the six months ended June 30, 2021 and 2020, respectively. Total sales of hardware and equipment accessories represent approximately $188 and $129 of revenues for the three months ended June 30, 2021 and 2020, respectively. Total sales of hardware and equipment accessories represent approximately $520 and $400 of revenues for the six months ended June 30, 2021 and 2020, respectively. Essentially all of the variable-fee licenses are with large healthcare organizations. The remainder of the revenue is earned from leasing the Company's testing product for a fixed fee, which is not subject to Topic 606.

Semler Scientific, Inc.
Notes to Condensed Financial Statements
Unaudited
(In thousands of U.S. Dollars, except share and per share data)

3. Inventory

Inventory, which is made up of finished goods, is recorded at the lower of cost or net realizable value. Cost is determined on the first-in, first-out method. The Company periodically analyzes its inventory levels to identify inventory that has a cost basis in excess of its estimated realizable value, and writes down such inventory as appropriate.

In September 2020, the Company entered into an agreement with Private company #1 to exclusively market and distribute a new product line. Product inventory under this agreement was as follows for the periods presented:

Under this agreement, the Company committed to purchase $1,200 of product inventory. The Company prepaid for $1,200 of product inventory and has received $917 of product inventory as of June 30, 2021. The balance of prepaid inventory was $283 as of June 30, 2021.

The Company also agreed to make royalty payments ranging from 0% to 10% of net sales depending on the average net sales price of the distributed products. Unless early terminated in accordance with its terms, this exclusive distribution agreement will remain in full force and effect until December 31, 2024, and thereafter there is an option for this agreement to be automatically renewed for additional 4-year terms. There were no sales of this product through June 30, 2021.

The Company had other hardware inventory of $808 purchased from other vendors as of June 30, 2021. Total inventory, which includes inventory from Private company #1, was $1,715 and $340 as of June 30, 2021 and December 31, 2020, respectively.

4. Assets for Lease, net

The Company enters into contracts with customers for the Company's QuantaFlo® product. The Company has determined these contracts meet the definition of a lease under Topic 842. Operating leases are short-term in nature (monthly, quarterly or one year), and all of which have renewal options. The assets that may be associated with these leasing arrangements are identified below as assets for lease. Upon shipment under operating leases, assets for lease are depreciated. Upon shipment under variable-fee license contracts, these assets for lease are sold to the customers, and the asset is recognized as cost of revenue under Accounting Standards Codification or ASC 606, *Revenue from Contracts with Customers*. During the three months ended June 30, 2021 and 2020, the Company recognized approximately $7,618 and $5,954, respectively, in lease revenues related to these arrangements. During the six months ended June 30, 2021 and 2020, the Company recognized approximately $14,812 and $12,411, respectively, in lease revenues related to these arrangements, which is included in Revenues on the Condensed Statements of Income.

Assets for lease consist of the following:

	June 30, 2021	December 31, 2020
Assets for lease	$ 3,230	$ 3,407
Less: accumulated depreciation	(1,499)	(1,466)
Assets for lease, net	$ 1,731	$ 1,941

Depreciation expense amounted to $110 and $44 for the three months ended June 30, 2021 and 2020, respectively. Depreciation expense amounted to $223 and $172 for the six months ended June 30, 2021 and 2020, respectively. Reduction to accumulated depreciation for returned items was $50 and $22 for the three months ended June 30, 2021 and 2020, respectively. Reduction to accumulated depreciation for returned items was $191 and $87 for the six months ended June 30, 2021 and 2020, respectively. The Company recognized a loss on disposal of assets for lease in the amount of $41 and $59 for the three months ended June 30, 2021 and 2020, respectively. The Company recognized a loss on disposal of assets for lease in the amount of $124 and $125 for the six months ended June 30, 2021 and 2020, respectively.

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5. Property and Equipment, net

Capital assets consist of the following:

	June 30, 2021	December 31, 2020
Capital assets	$ 1,023	$ 786
Less: accumulated depreciation	(612)	(525)
Capital assets, net	$ 411	$ 261

Depreciation expense amounted to $44 and $32 for the three months ended June 30, 2021 and 2020, respectively. Depreciation expense amounted to $87 and $63 for the six months ended June 30, 2021 and 2020, respectively.

6. Long-Term Investments

Long term investments consist of the following for the periods presented:

	June 30, 2021	December 31, 2020
Investments in Private company #2	$ 512	$ 2,742
Investments in Private company #3	309	309
Total	$ 821	$ 3,051

Private Company #2:

In October 2020, the Company purchased 211,928 shares of common stock of Private company #2 from certain sellers in exchange for 40,922 shares of the Company's common stock. The total fair value of the purchase consideration as of December 31, 2020 was approximately $2,230. The Company had the right to, in various circumstances, sell any or all of these shares of common stock back to the sellers in exchange for the shares of the Company's common stock originally issued to the sellers. These rights were tied to (a) Private company #2 completing a bona fide equity financing, (b) the share price in such financing, (c) the timing of delivery of certain documents to the Company, or (d) at the Company's sole option, at any time between March 31, 2021 and October 8, 2021. On April 1, 2021, the Company exercised its option to "put" these shares of common stock back to the sellers in exchange for the shares of the Company's common stock originally issued to the sellers.

In September 2020, the Company acquired a promissory note from Private company #2 in the principal amount of $500, $100 of which was retained for expense reimbursement. Subsequently, in December 2020, the Company agreed to convert the promissory note, together with all accrued interest thereon, into shares of preferred stock of Private company #2 as repayment in full of the promissory note. The value of the note exchanged for the shares of preferred stock of Private company #2 held by the Company as of June 30, 2021 and December 31, 2020 was approximately $512.

Private Company #3:

In October 2020, the Company acquired from a seller a convertible promissory note previously issued by Private company #3 to such seller for a purchase price of $59, which represented the $50 principal amount of the note and all accrued and unpaid interest thereon.

Subsequently, in October 2020, the Company purchased $250 of shares of preferred stock of Private company #3, and in connection with such transaction, the convertible promissory note, together with all accrued interest thereon, also converted pursuant to its terms into shares of preferred stock of Private company #3 as repayment in full of such convertible promissory note. The value of consideration exchanged for the shares of preferred stock of Private company #3 held by the Company as of June 30, 2021 and December 31, 2020 was approximately $309.

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In April 2021, the Company entered into an agreement with Private company #3 to exclusively market and distribute its product line in the United States, including Puerto Rico, except for selected accounts. The Company is currently developing a marketing plan. Under this distribution agreement, the Company agreed to purchase $2,000 of product licenses. Unless terminated early in accordance with its terms, the exclusive distribution agreement will remain in full force and effect until April 1, 2026, and thereafter there is an option for this agreement to be automatically renewed for additional one-year terms. Revenue from these product licenses will be recognized in accordance with ASC 606, *Revenue from Contracts with Customers*. The Company did not generate any revenue from these product licenses during the three and six months ended June 30, 2021.

The investments in Private company #2 and #3 securities that were retained by the Company as of December 31, 2020 and June 30, 2021 were recorded in accordance with ASC 321, *Investments – equity securities*, which provides that investments in equity securities in privately-held companies without readily determinable fair values are generally recorded at cost, plus or minus subsequent observable price changes in orderly transactions for identical or similar investments, less impairments. The Company elected the practical expedient permitted by ASC 321 and recorded the above investments on a cost basis. As a part of the assessment for impairment indicators, the Company considers significant deterioration in the earnings performance and overall business prospects of the investee as well as significant adverse changes in the external environment these investments operate. If qualitative assessment indicates the investments are impaired, the fair value of these equity securities would be estimated, which would involve a significant degree of judgement and subjectivity. No impairment was recorded during the three and six months ended June 30, 2021.

7. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2021	December 31, 2020
Compensation	$ 2,995	$ 1,524
Accrued Taxes	989	861
Miscellaneous Accruals	437	413
Total Accrued Expenses	$ 4,421	$ 2,798

8. Concentration of Credit Risk

Credit risk is the risk of loss from amounts owed by the financial counterparties. Credit risk can occur at multiple levels; as a result of broad economic conditions, challenges within specific sectors of the economy, or from issues affecting individual companies. Financial instruments that potentially subject the Company to credit risk consist of cash and accounts receivable.

The Company maintains cash with major financial institutions. The Company's cash consists of bank deposits held with banks that, at times, exceed federally insured limits. The Company limits its credit risk by dealing with counterparties that are considered to be of high credit quality and by performing periodic evaluations of the relative credit standing of these financial institutions.

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Management periodically monitors the creditworthiness of its customers and believes that it has adequately provided for any exposure to potential credit loss. For the three months ended June 30, 2021, two customers accounted for 37.6% and 33.0% of the Company's revenues, respectively. For the six months ended June 30, 2021, two customers accounted for 38.0% and 31.8% of the Company's revenues, respectively. For the three months ended June 30, 2020, one customer accounted for 62.1% of the Company's revenues. For the six months ended June 30, 2020, two customers accounted for 52.5% and 14.0%, of the Company's revenues, respectively. As of December 31, 2020, four customers accounted for 31.2%, 19.4%, 15.7% and 10.4% of the Company's accounts receivable, respectively. As of June 30, 2021, three customers accounted for 34.6%, 21.6% and 14.3% of the Company's accounts receivable, respectively. The Company's largest customer in terms of both revenues and accounts receivable in the six months ended June 30, 2021 is a U.S. diversified healthcare company and its affiliated plans.

As of December 31, 2020, two vendors accounted for 15.9% and 24.3% of the Company's accounts payable, respectively. As of June 30, 2021, three vendors accounted for 23.2%, 10.9% and 10.7% of the Company's accounts payable, respectively.

9. Leases

On July 31, 2020, the Company entered into a 61-month lease agreement for office space to use, as necessary, for office administration, lab space and assembly and storage purposes, located in Santa Clara, California. The Company took possession of the leased office space in September 2020, and the lease is effective through September 30, 2025.

As of June 30, 2021, the remaining lease term is four years and three months with no options to renew. The Company recognized facilities lease expenses of $28 and $18 for the three months ended June 30, 2021 and June 30, 2020, respectively. The Company recognized facilities lease expenses of $68 and $35 for the six months ended June 30, 2021 and June 30, 2020, respectively. The following table summarizes the future minimum rental payments required under operating leases that had initial or remaining non-cancelable lease terms greater than one year as of June 30, 2021:

	Total
2021 Remaining period	$ 43
2022	87
2023	90
2024	93
2025	71
Thereafter	—
Total undiscounted future minimum lease payments	384
Less: present value discount	(20)
Total lease liabilities	364
Lease expense in excess cash payment	(11)
Total ROU asset	$ 353

As of June 30, 2021, the Company's right-of-use ("ROU") asset was $353, which was recorded on the Company's balance sheet as other noncurrent assets, and the Company's current and noncurrent lease liabilities were $78 and $286, respectively, which were recorded on the Company's balance sheet as other short-term liabilities and other long-term liabilities, respectively. As of December 31, 2020, the Company's ROU asset was $399, which was recorded on the Company's balance sheet as other noncurrent assets, and the Company's current and noncurrent lease liabilities were $75 and $332, respectively, which were recorded on the Company's balance sheet as other short-term liabilities and other long-term liabilities, respectively.

Lease Arrangements

The Company enters into contracts with customers for the Company's QuantaFlo® product. The Company has determined these contracts meet the definition of a lease under Topic 842. The lease portfolio primarily consists of operating leases that are short-term in nature (monthly, quarterly or one year, all of which have renewal options). The Company allocates the consideration in a bundled contract with its customers based on relative standalone selling prices of the lease and non-lease components. The Company made an

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accounting policy election to apply the practical expedient to not separate lease and eligible non-lease components. The lease component is the predominant component and consists of fees charged for use of the equipment over the period of the arrangement. The nature of the eligible non-lease component is primarily software support. The assets associated with these leasing arrangements are separately identified in the Balance Sheet as Assets for Lease and separately disclosed in Note 4 to the Unaudited Condensed Financial Statements.

10. Commitments and Contingencies

Facilities Leases

On July 31, 2020, the Company entered into a 61-month lease agreement for office space to use, as necessary, for office administration, lab space and assembly and storage purposes, located in Santa Clara, California. The Company took possession of the leased office space in September 2020, and the lease is effective through September 30, 2025. See Note 9 to the Unaudited Condensed Financial Statements for the details.

Indemnification Obligations

The Company enters into agreements with customers, partners, lenders, consultants, lessors, contractors, sales representatives and parties to certain transactions in the ordinary course of the Company's business. These agreements may require the Company to indemnify the other party against third party claims alleging that its product infringes a patent or copyright. Certain of these agreements require the Company to indemnify the other party against losses arising from: a breach of representations or covenants, claims relating to property damage, personal injury or acts or omissions of the Company, its employees, agents or representatives. The Company has also agreed to indemnify the directors and certain of the officers and employees in accordance with the by-laws of the Company. These indemnification provisions will vary based upon the nature and terms of the agreements. In many cases, these indemnification provisions do not contain limits on the Company's liability, and the occurrence of contingent events that will trigger payment under these indemnities is difficult to predict. As a result, the Company cannot estimate its potential liability under these indemnities. The Company believes that the likelihood of conditions arising that would trigger these indemnities is remote and, historically, the Company has not made any significant payment under such indemnification provisions. Accordingly, the Company has not recorded any liabilities relating to these agreements. In certain cases, the Company has recourse against third parties with respect to the aforesaid indemnities, and the Company believes it maintains adequate levels of insurance coverage to protect the Company with respect to potential claims arising from such agreements.

11. Stock Incentive Plan

The Company's stock-based compensation program is designed to attract and retain employees while also aligning employees' interests with the interests of its stockholders. Stock options have been granted to employees under the stockholder-approved 2007 Key Person Stock Option Plan ("2007 Plan") and stock options and restricted stock have been granted to employees under the stockholder-approved 2014 Stock Incentive Plan ("2014 Plan"). Stockholder approval of the 2014 Plan became effective in September 2014. The 2014 Plan originally provided that the aggregate number of shares of common stock that may be issued pursuant to awards granted under the 2014 Plan may not exceed 450,000 shares (the "Share Reserve"), however in October 2015, the stockholders approved a 1,500,000 increase to the Share Reserve. In addition, the Share Reserve automatically increases on January 1st of each year, for a period of not more than 10 years, beginning on January 1st of the year following the year in which the 2014 Plan became effective and ending on (and including) January 1, 2024, in an amount equal to 4% of the total number of shares of common stock outstanding on December 31st of the preceding calendar year. The Company's Board of Directors may act prior to January 1st of a given year to provide that there will be no January 1st increase in the Share Reserve for such year or that the increase in the Share Reserve for such year will be a lesser number of shares of common stock than would otherwise occur. On January 1, 2021, the Share Reserve increased by 268,017 shares due to the automatic 4% increase. The Share Reserve is currently 3,312,882 shares as of June 30, 2021.

In light of stockholder approval of the 2014 Plan, the Company no longer grants equity awards under the 2007 Plan. As of June 30, 2021, there were no shares available for future stock-based compensation grants under the 2007 Plan and 1,525,210 shares of an aggregate total of 3,312,882 shares were available for future stock-based compensation grants under the 2014 Plan.

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Stock Awards

The Company granted fully vested stock awards for an aggregate 5,400 shares of common stock to the non-employee members of the board of directors, employees and one non-employee as compensation during the six months ended June 30, 2021. Fair value of these stock awards on grant date was $537.

Stock Options

Aggregate intrinsic value represents the difference between the closing market value as of June 30, 2021 of the underlying common stock and the exercise price of outstanding, in-the-money options. A summary of the Company's stock option activity and related information for the six months ended June 30, 2021 is as follows:

	Options Outstanding			
	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In Thousands)
Balance, January 1, 2021	**1,451,420**	**$ 3.25**	**4.91**	**$ 131,714**
Options exercised	(90,200)	2.52	—	—
Balance, June 30, 2021	**1,361,220**	**$ 3.30**	**4.47**	**$ 147,686**
Exercisable as of June 30, 2021	**1,346,984**	**$ 3.25**	**4.45**	**$ 146,208**

The total compensation cost related to unvested stock option awards not yet recognized was $85 as of June 30, 2021. The weighted average period over which the total unrecognized compensation cost related to these unvested stock awards will be recognized is 0.46 years. There were no options granted during the six months ended June 30, 2021 or 2020.

The Company has recorded an expense of $47 and $61 as it relates to stock-based compensation for the three months ended June 30, 2021 and 2020, respectively. The Company has recorded an expense of $635 and $128 as it relates to stock-based compensation for the six months ended June 30, 2021 and 2020, respectively:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Cost of Revenues	$ —	$ —	$ —	$ —
Engineering and Product Development	—	—	32	—
Sales and Marketing	—	—	105	—
General and Administrative	47	61	498	128
Total	$ 47	$ 61	$ 635	$ 128

12. Income Taxes

The Company's income tax provision for the three and six months ended June 30, 2021 and June 30, 2020 reflect its estimate of the effective tax rates expected to be applicable for the full year, adjusted for any discrete events that are recorded in the period in which they occurred. The estimates are re-evaluated each quarter based on the estimated tax expense for the full year.

For uncertain tax positions that meet a "more likely than not" threshold, the Company recognizes the benefit of uncertain tax positions in the financial statements. The Company's practice is to recognize interest and penalties, if any, related to uncertain tax positions in income tax expense in the statements of operations.

The effective tax rate for the three and six months ended June 30, 2021 was (3.32%) and 7.43%, respectively, compared to (8.59%) and 15.59%, respectively, in the same periods of the prior year. The decrease in the effective tax rate for the six months ended June 30, 2021 is primarily related to increase of tax benefits associated with share-based compensation plans. The increase in the

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effective tax rate for the three months ended June 30, 2021 is primarily related to higher income before incomes taxes for the three months ended June 30, 2021, as well as a decrease of income tax benefit from discrete events that occurred during the quarter.

The effective tax rate for the three months and six months ended June 30, 2021 differed from the U.S. federal statutory rate of 21% primarily due to state income taxes (net of federal benefit), tax benefits associated with share-based compensation plans, and federal and state research and development ("R&D") credit benefit. The difference between the U.S. federal statutory rate of 21% and the Company's effective tax rate for the three months and six months ended June 30, 2020 was primarily due to current state taxes that have no net operating loss to offset such taxes.

As of June 30, 2021, and December 31, 2020, the Company had $331 and $341, respectively of unrecognized tax benefits, excluding interest and penalties. The Company's practice is to recognize interest and penalty expenses related to uncertain tax positions in income tax expense, which was zero for the year ended December 31, 2020 and six months ended June 30, 2021.

13. Net Income Per Share, Basic and Diluted

Basic earnings per share ("EPS") represent net income attributable to common stockholders divided by the weighted average number of common shares outstanding during the measurement period. Diluted EPS represents net income attributable to common stockholders divided by the weighted average number of common shares outstanding during the measurement period while also giving effect to all potentially dilutive common shares that were outstanding during the period using the treasury stock method.

Basic and diluted EPS is calculated as follows:

	Three months ended June 30,					
	2021			2020		
	Shares	Net Income	EPS	Shares	Net Income	EPS
Basic	6,702,258	$ 6,688	$ 1.00	6,548,215	$ 1,075	$ 0.16
Common stock warrants	73,789	—		69,039	—	
Common stock options	1,316,412	—		1,417,794	—	
Diluted	8,092,459	$ 6,688	$ 0.83	8,035,048	$ 1,075	$ 0.13

	Six months ended June 30,					
	2021			2020		
	Shares	Net Income	EPS	Shares	Net Income	EPS
Basic	6,706,678	$ 11,565	$ 1.72	6,540,755	$ 3,748	$ 0.57
Common stock warrants	73,643	—		69,377	—	
Common stock options	1,350,650	—		1,440,262	—	
Diluted	8,130,971	$ 11,565	$ 1.42	8,050,394	$ 3,748	$ 0.47

The were no weighted average shares outstanding of common stock equivalents excluded from the computation of diluted net income per share for the six months ended June 30, 2021 and 2020.

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

The following discussion and analysis should be read together with our condensed unaudited financial statements and the related notes appearing elsewhere in this quarterly report on Form 10-Q and with the audited financial statements and notes for the fiscal year ended December 31, 2020, and the information under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the SEC on March 9, 2021, or the Annual Report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. See "Cautionary Note Regarding Forward-Looking Statements" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results and the timing of events could differ materially from those discussed in our forward-looking statements as a result of many factors, including those set forth under "Risk Factors" in the Annual Report.

Overview

We are a company providing technology solutions to improve the clinical effectiveness and efficiency of healthcare providers. Our mission is to develop, manufacture and market innovative proprietary products and services that assist our customers in evaluating and treating chronic diseases. In 2011, we began commercializing our first patented and U.S. Food and Drug Administration, or FDA, cleared product, which measured arterial blood flow in the extremities to aid in the diagnosis of peripheral arterial disease, or PAD. In March 2015, we received FDA 510(k) clearance for the next generation version of our product, QuantaFlo®, which we began commercializing in August 2015. In September 2020, we entered into an agreement with a private company to exclusively market and distribute a new product line in the United States, including Puerto Rico, and, in September and October 2020, in an effort to provide access to potentially complementary product offerings, we made investments in two private companies working in other product areas. We believe our current products and services, and any future products or services that we may offer, position us to provide valuable information to our customer base, which in turn permits them to better guide patient care. In the three months ended June 30, 2021, we had total revenues of $14.3 million and net income of $6.7 million, compared to total revenues of $6.4 million and net income of $1.1 million in the same period in 2020. In the six months ended June 30, 2021, we had total revenues of $27.5 million and net income of $11.6 million, compared to total revenues of $15.8 million and net income of $3.7 million in the same period in 2020.

Recent Developments

Late in the first quarter and into the second quarter of 2020, we experienced decreased test volumes due to COVID-19 related "social distancing" and other executive orders mandating "shelter-in-place" or similar restrictions, which limited patient visits by our customers. As such restrictions have been lifted around the country and non-emergency medical services resumed in late 2020, our business has returned to and even exceeded pre-COVID-19 levels. In the third and fourth quarters of 2020, we experienced even higher test volumes as our customers accelerated usage due to a backlog of untested patients. However, as we look forward into the remainder of 2021, there is uncertainty that the roll-back in restrictions will be maintained as recent outbreaks of variants occur and vaccination rates lag in certain jurisdictions. New, additional or different restrictions could be imposed, which could impact the usage of our product by our customers. Other customers who have fixed-fee licenses could decide to cancel their licenses if they are not able to use our device as frequently as they had anticipated in light of such restrictions.

In September 2020, we entered into an agreement with a private company to exclusively market and distribute a new product line in the United States, including Puerto Rico, for which we are currently developing a marketing plan. Under this distribution agreement, we agreed to purchase $1.2 million of product inventory. We also agreed to make royalty payments ranging from 0% to 10% of net sales depending on the average net sales price of the distributed products. Unless early terminated in accordance with its terms, the exclusive distribution agreement will remain in full force and effect until December 31, 2024, and thereafter there is an option for this agreement to be automatically renewed for additional 4-year terms. During September 2020, we prepaid for $1.2 million of product inventory, of which we have received $0.9 million as of June 30, 2021.

In September 2020, we acquired a $0.5 million promissory note from a second private company in a new product area. We funded $0.4 million of the note, and the remaining $0.1 million was retained for expense reimbursement. In December 2020, we agreed to the conversion of the $0.5 million promissory note, together with all accrued interest thereon, into shares of the private company's preferred stock as repayment in full of such promissory note. In October 2020, we purchased 211,928 shares of common stock of such private company from certain sellers in exchange for 40,922 shares of our common stock, and had the right to "put" share shares of common stock back to the sellers in exchange for the return of shares of our common stock issued to them in certain circumstances, including beginning March 31, 2021 for a limited time period. Accordingly, in April 2021, we exercised this right and returned these shares of common stock back to the sellers in exchange for the shares of our common stock originally issued to the sellers. Following this transfer, we continue to hold the shares of preferred stock we acquired from this company in December 2020.

In October 2020, we acquired a convertible note in a third private company in a new product area for a purchase price of $58,000, which note converted into shares of preferred stock of such private company concurrent with our purchase of additional shares of preferred stock of such private company for $0.3 million. Subsequently, we acquired a $1.5 million convertible promissory note and warrants to purchase shares of common stock of this third privately-held company. We funded $1.4 million of the note, and the remaining $0.1 million was retained for expense reimbursement. In November 2020, the $1.5 million convertible promissory note, together with all accrued interest thereon, converted pursuant to its terms into shares of the private company's preferred stock as repayment in full of such convertible promissory note. In December 2020, we transferred and sold these shares of preferred stock, along with the warrants to purchase common stock we had acquired from such company in October 2020, to one of our significant stockholders, for a cash purchase price of $1.9 million. Following this transfer, we continue to hold the shares of preferred stock we acquired from this company in October 2020. In April 2021, we entered into an agreement with this private company to exclusively market and distribute their product line in the United States, including Puerto Rico, except for selected accounts. We are currently developing a marketing plan. Under this distribution agreement, we agreed to purchase $2.0 million of product licenses. Unless early terminated in accordance with its terms, the exclusive distribution agreement will remain in full force and effect until April 1, 2026, and thereafter there is an option for this agreement to be automatically renewed for additional one-year terms.

We invested in these three private companies as they are developing products that may allow us to expand our current product offering beyond QuantaFlo® for PAD, in addition to our internal research and development efforts. Their products deal with better chronic disease management and may be used by primary care practitioners, are FDA-cleared or equivalent, produced positive clinical data and two of the three new products seek to improve aspects or sequelae of the metabolic syndrome.

Results of Operations

Three Months Ended June 30, 2021 Compared to Three Months Ended June 30, 2020

Revenues

We had revenues of $14.3 million for the three months ended June 30, 2021, an increase of $7.9 million, or 125%, compared to $6.4 million in the same period in 2020. Our revenues are primarily from fees charged to customers for use of our vascular testing products and from sale of accessories used with these products. We recognized revenues of $14.1 million from fees for our vascular testing products for the three months ended June 30, 2021, consisting of $7.6 million from fixed-fee licenses and $6.5 million from variable-fee licenses compared to $6.3 million in the same period of the prior year, consisting of $6.0 million from fixed-fee licenses and $0.3 million from variable-fee licenses. The remainder was from sales of other products, which were $0.2 million compared to $0.1 million in the same period of the prior year. We experienced the effects of COVID-19 beginning late in the first quarter and primarily during the second quarter of 2020, which decreased our revenues, in particular, revenue from variable-fee licenses.

Revenues from fees for vascular testing products are recognized monthly for each unit installed with a customer, usually billed as a fixed monthly fee, or as a variable monthly fee dependent on usage. The primary reason for the increase in revenues was growth in the number of installed units from both new customers and established customers, which we believe is the result of our sales and marketing efforts, and to a lesser extent, the fact that revenues for the three months ended June 30, 2020 were lower than usual due to the impact of COVID-19.

Operating expenses

We had total operating expenses of $7.8 million for the three months ended June 30, 2021, an increase of $2.4 million or 45%, compared to $5.4 million in the same period in the prior year. The primary reasons for this change were increased expenses associated with our expanding business, such as increased personnel expense, which was partially offset by payroll tax reductions available in the current quarter as compared to the prior year period. As a percentage of revenues, operating expenses decreased to 55% in the second quarter of 2021 as compared to 85% in the prior year period. The changes in the various components of our operating expenses are described below.

Cost of revenues

We had cost of revenues of $1.0 million for the three months ended June 30, 2021, an increase of $0.3 million, or 42%, compared to $0.7 million in the same period of the prior year. The primary reasons for this change were increased revenue and headcount. As a percentage of revenues, cost of revenues decreased to 7% in the second quarter of 2021, as compared to 11% in the prior year period.

Engineering and product development expense

We had engineering and product development expense of $1.0 million for the three months ended June 30, 2021, an increase of $0.2 million, or 24%, compared to $0.8 million in the same period of the prior year. The increase was primarily due to increased clinical studies costs as well as increased consulting costs associated with projects. As a percentage of revenues, engineering and product development expense was 7% in the second quarter of 2021, as compared to 12% in the prior year period.

Sales and marketing expense

We had sales and marketing expense of $3.6 million for the three months ended June 30, 2021, an increase of $1.1 million, or 47%, compared to $2.5 million in the same period of the prior year. The increase was primarily due to increased headcount and associated expense to serve a continued expansion of customer activities. As a percentage of revenues, sales and marketing expense decreased to 25% in the second quarter of 2021, as compared to 39% in the prior year period.

General and administrative expense

We had general and administrative expense of $2.3 million for the three months ended June 30, 2021, an increase of $0.8 million, or 54%, compared to $1.5 million in the same period of the prior year. The increase was primarily due to the growth in our business, which led to increased expenses including the expansion of board of directors, insurance and other professional fees. As a percentage of revenues, general and administrative expense decreased to 16% in the second quarter of 2021, as compared to 23% in the prior year period.

Other income/expense

We had other income of $9,000 for the three months ended June 30, 2021, compared to other income of $30,000 in the same period of the prior year. The decrease was primarily due to lower miscellaneous income and interest income.

Income tax benefit

We had income tax benefit of $215,000 and $85,000, respectively, for the three months ended June 30, 2021 and 2020. The tax benefit was primarily due to state income taxes (net of federal benefit), tax benefits associated with share-based compensation plans, and federal and state research and development, or R&D credit benefit.

Net income

For the foregoing reasons, we had net income of $6.7 million, or $1.00 per basic share and $0.83 per diluted share, for the three months ended June 30, 2021, an increase of $5.6 million, or 522%, compared to a net income of $1.1 million, or $0.16 per basic share and $0.13 per diluted share, for the same period of the prior year.

Six Months Ended June 30, 2021 Compared to Six Months Ended June 30, 2020

Revenues

We had revenues of $27.5 million for the six months ended June 30, 2021, an increase of $11.7 million, or 74%, compared to $15.8 million in the same period in 2020. Our revenues are primarily from fees charged to customers for use of our vascular testing products and from sales of accessories used with these products. We recognized revenues of $27.0 million from fees for our vascular testing products for the six months ended June 30, 2021, consisting of $14.8 million from fixed-fee licenses and $12.2 million from variable-fee licenses, compared to $15.4 million in the same period of the prior year, consisting of $12.4 million from fixed-fee licenses and $3.0 million from variable-fee licenses. The remainder was from sales of other products, which were $0.5 million compared to $0.4

million in the same period of the prior year. We experienced the effects of COVID-19 beginning late in the first quarter and primarily during the second quarter of 2020, which decreased our revenues, in particular, revenue from variable-fee licenses.

Revenues from fees for vascular testing products are recognized monthly for each unit installed with a customer, usually billed as a fixed monthly fee, or as a variable monthly fee dependent on usage. The primary reason for the increase in revenues was growth in the number of installed units from both new customers and established customers, which we believe is the result of our sales and marketing efforts, and to a lesser extent, the fact that revenues for the six months ended June 30, 2020 were lower than usual due to the impact of COVID-19.

Operating expenses

We had total operating expenses of $15.0 million for the six months ended June 30, 2021, an increase of $3.6 million or 32%, compared to $11.4 million in the same period in the prior year. The primary reasons for this change were increases due to personnel expense, including stock-based compensation due to an increased headcount, partially offset by payroll tax reductions available in the current period as compared to the prior year period. As a percentage of revenues, operating expenses decreased to 55% in the first six months of 2021 as compared to 72% in the prior year period. The changes in the various components of our operating expenses are described below.

Cost of revenues

We had cost of revenues of $2.6 million for the six months ended June 30, 2021, an increase of $1.0 million, or 66%, compared to $1.6 million in the same period of the prior year. The primary reasons for this change were increased consulting, customer service expenses and increased headcount. As a percentage of revenues, cost of revenues decreased to 9% in the first half of 2021, as compared to 10% in the prior year period.

Engineering and product development expense

We had engineering and product development expense of $1.6 million for the six months ended June 30, 2021, and also in the same period of the prior year. As a percentage of revenues, engineering and product development expenses decreased to 6% in the first six months of 2021, compared to 10% in the prior year period.

Sales and marketing expense

We had sales and marketing expense of $6.4 million for the six months ended June 30, 2021, an increase of $1.3 million, or 25%, compared to $5.1 million in the same period of the prior year. The increase was primarily due to increased headcount and associated expense to serve a continued expansion of customer activities, partially offset by travel expenses. As a percentage of revenues, sales and marketing expense decreased to 23% in the first six months of 2021, as compared to 33% in the prior year period.

General and administrative expense

We had general and administrative expense of $4.4 million for the six months ended June 30, 2021, an increase of $1.3 million, or 42%, compared to $3.1 million in the same period of the prior year. The increase was primarily due to the growth in our business, which led to increased expenses including the expansion of board of directors, insurance and subscriptions, partially offset by payroll tax credits and consulting fee expenses. As a percentage of revenues, general and administrative expense decreased to 16% in the first six months of 2021, as compared to 19% in the prior year period.

Other income/expense

We had other income of $11,000 for the six months ended June 30, 2021, compared to other income of $29,000 in the same period of the prior year. The decrease was primarily due to lower miscellaneous income and interest income.

Income tax expense

We had income tax expense of $0.9 million for the six months ended June 30, 2021, an increase of $0.2 million or 34%, compared to income tax expense of $0.7 million in the same period of the prior year. The tax expense increase was due to increased income from operations, which was partially offset by tax benefits associated with share-based compensation plans, and federal and state R&D credit benefit.

Net income

For the foregoing reasons, we had net income of $11.6 million, or $1.72 per basic share and $1.42 per diluted share, for the six months ended June 30, 2021, an increase of $7.8 million, or 209%, compared to a net income of $3.7 million, or $0.57 per basic share and $0.47 per diluted share, for the same period of the prior year.

Liquidity and Capital Resources

We had cash of $28.5 million at June 30, 2021 compared to $22.1 million at December 31, 2020, and total current liabilities of $5.9 million at June 30, 2021 compared to $4.5 million at December 31, 2020. As of June 30, 2021, we had working capital of approximately $34.8 million.

Our cash is held in a variety of non-interest bearing bank accounts. We may also hold interest-bearing instruments subject to investment guidelines allowing for holdings in U.S. government and agency securities, corporate securities, taxable municipal bonds, commercial paper and money market accounts. In addition, we may also choose to invest some of our cash resources in other entities that may have complementary technologies or product offerings, such as our recent decision to acquire inventory for distribution in the United States, including Puerto Rico, of two new product line offerings, as well as make minority investments in other privately-held companies in new product areas.

Operating activities

We generated $6.8 million of net cash from operating activities for the six months ended June 30, 2021 compared to $6.1 million of net cash from operating activities for the same period of the prior year. The change was primarily due to increase of net income, which occurred due to growth in our business. Non-cash adjustments to reconcile net income to net cash from operating activities provided to net cash of $1.5 million and were primarily due to stock-based compensation expense of $0.7 million, deferred tax expense of $0.4 million, depreciation of $0.3 million, and loss on disposal of assets for lease of $0.1 million. Changes in operating assets and liabilities used $6.3 million of net cash. These changes in operating assets and liabilities included cash used by trade accounts receivable of $2.0 million, prepaid and other expenses of $4.4 million, inventory of $1.4 million and trade payables of $0.2 million, deferred revenue $0.1 million, partially offset by cash provided by accrued expenses of $1.7 million and other noncurrent assets $0.1 million.

Investing activities

We used $0.4 million of net cash in investing activities for the six months ended June 30, 2021, which reflects funding of purchases of assets for lease of $0.1 million and fixed asset purchases of $0.3 million to support our growing business.

We used $0.2 million of net cash in investing activities for the six months ended June 30, 2020, which reflects purchases of assets for lease of $0.1 million and fixed asset purchases of $0.1 million to support our growing business.

Financing activities

We generated $45,000 in net cash from financing activities during the six months ended June 30, 2021, due to proceeds from exercise of stock options.

We generated $70,000 in net cash from financing activities during the six months ended June 30, 2020, due to proceeds from exercise of stock options.

Off-Balance Sheet Arrangements

As of June 30, 2021, and December 31, 2020, we had no off-balance sheet arrangements.

Commitments and Contingencies

As of June 30, 2021, and December 31, 2020, other than employment/consulting agreements with key executive officers and our facilities lease obligation, we had no material commitments other than the liabilities reflected in our financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure material information required to be disclosed in our reports that we file or submit under the Exchange Act 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 Chief Executive Officer, our Senior Vice President, Finance and Accounting and our Vice President, Finance, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, we recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of and with the participation of our management, including our Chief Executive Officer, our Senior Vice President, Finance and Accounting and our Vice President, Finance, we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2021. Based upon that evaluation, our Chief Executive Officer, our Senior Vice President, Finance and Accounting and our Vice President, Finance concluded that our internal control over financial reporting, our disclosure controls and procedures were effective. Our management, including our Chief Executive Officer, our Senior Vice President, Finance and Accounting and our Vice President, Finance, has concluded that the consolidated financial statements included in this Quarterly Report on Form 10-Q are fairly stated, in all material respects, in accordance with generally accepting accounting principles in the United States for each of the periods presented herein.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during our second fiscal quarter ended June 30, 2021.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exh. No.	Exhibit Name
31.1	Rule 13a-14(a) Certification of Principal Executive Officer of Registrant
31.2	Rule 13a-14(a) Certification of Principal Financial Officer of Registrant
32.1	Section 1350 Certification
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	The cover page from Semler Scientific's Quarterly Report on Form 10-Q for the three months ended June 30, 2021 is formatted in Inline XBRL and it is contained in Exhibit 101

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.

August 6, 2021

SEMLER SCIENTIFIC, INC.

By: /s/ Douglas Murphy-Chutorian, M.D.
Douglas Murphy-Chutorian, M.D.
Chief Executive Officer

By: /s/ Andrew B. Weinstein
Andrew B. Weinstein
Senior Vice President, Finance and Accounting

Exhibit 31.1

RULE 13A-14(A) CERTIFICATION

I, Douglas Murphy-Chutorian, M.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Semler Scientific, Inc., a Delaware corporation;

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.

Dated: August 6, 2021

/s/ Douglas Murphy-Chutorian, M.D.
Douglas Murphy-Chutorian, M.D.
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

RULE 13A-14(A) CERTIFICATION

I, Andrew B. Weinstein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Semler Scientific, Inc., a Delaware corporation;

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.

Dated: August 6, 2021

/s/ Andrew B. Weinstein
Andrew B. Weinstein
Senior Vice President, Finance and Accounting
(Principal Financial Officer)

Exhibit 32.1

SECTION 1350 CERTIFICATION

Each of the undersigned, Douglas Murphy-Chutorian, M.D., Chief Executive Officer of Semler Scientific, Inc., a Delaware corporation (the "Company"), and Andrew B. Weinstein, Senior Vice President, Finance and Accounting of the Company, does hereby certify, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge (1) the quarterly report on Form 10-Q of the Company for the period ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (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.

/s/ Douglas Murphy-Chutorian, M.D.
Name: Douglas Murphy-Chutorian, M.D.
Title: Chief Executive Officer
(Principal Executive Officer)
Dated: August 6, 2021

/s/ Andrew B. Weinstein
Name: Andrew B. Weinstein
Title: Senior Vice President, Finance and Accounting
(Principal Financial Officer)
Dated: August 6, 2021

This certification accompanies and is being "furnished" with this Report, shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version 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.