

Semler Scientific, Inc.
Form 10-Q
November 03, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 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 001-36305

SEMLER SCIENTIFIC, INC.

(Exact name of Registrant as specified in its Charter)

Delaware

26-1367393

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

**2330 N.W. Everett
Portland, Oregon**

97210
(Zip Code)

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

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

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

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

As of October 30, 2015, there were 4,983,568 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. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties known and unknown that could cause actual results and developments to differ materially from those expressed or implied in such statements.

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

You should read this quarterly report and the documents that we reference herein and therein and have filed as exhibits to this report, completely and with the understanding that our actual future results may be materially different from what we expect. You should assume that the information appearing in this quarterly report is accurate as of the date of this report only. Because the risk factors referred to above could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any forward-looking statements. These risks and uncertainties, along with others, are described above under the heading “Risk Factors” in our annual report on Form 10-K initially filed with the Securities and Exchange Commission, or SEC, on February 13, 2015, as amended to date. 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 Operations****(In thousands, except share and per share amounts)**

| | (Unaudited) For the three months ended September 30 | | (Unaudited) For the nine months ended September 30 | |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------|------------|----------------------------------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | \$1,562 | \$897 | \$4,067 | \$2,580 |
| Operating expenses: | | | | |
| Cost of revenue | 385 | 178 | 887 | 504 |
| Engineering and product development | 268 | 262 | 983 | 906 |
| Sales and marketing | 1,314 | 1,040 | 3,809 | 2,514 |
| General and administrative | 1,147 | 784 | 2,602 | 1,821 |
| Total operating expenses | 3,114 | 2,264 | 8,281 | 5,745 |
| Loss from operations | (1,552) | (1,367) | (4,214) | (3,165) |
| Other expense: | (28) | (99) | (79) | (150) |
| Net loss | \$(1,580) | \$(1,466) | \$(4,293) | \$(3,315) |
| Net loss per share, basic and diluted | \$(0.32) | \$(0.31) | \$(0.87) | \$(0.85) |
| Weighted average number of shares used in computing basic and diluted loss per share | 4,983,198 | 4,708,162 | 4,909,354 | 3,900,746 |

See accompanying notes to unaudited condensed financial statements.

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

| | September 30, 2015 (Unaudited) | December 31, 2014 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|-------------------------|
| Assets | | |
| Current Assets: | | |
| Cash | \$ 1,925 | \$ 4,156 |
| Restricted Cash | - | 2,100 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$73 and \$51, respectively | 439 | 355 |
| Prepaid expenses and other current assets | 90 | 135 |
| Total current assets | 2,454 | 6,746 |
| Assets for lease, net | 856 | 673 |
| Property and equipment, net | 188 | 9 |
| Long-term deposits | 22 | 17 |
| Deferred financing costs | - | 55 |
| Total assets | \$ 3,520 | \$ 7,500 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 61 | \$ 89 |
| Accrued expenses | 1,552 | 1,363 |
| Deferred revenue | 1,328 | 612 |
| Loans payable | - | 2,000 |
| Total current liabilities | 2,941 | 4,064 |
| Long-term liabilities: | | |
| Accrued rent | 48 | - |
| Total long-term liabilities | 48 | - |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value; 50,000,000 shares authorized; 5,008,567 and 4,734,217 shares issued, and 4,983,567 and 4,709,217 outstanding (net of treasury shares of 25,000 and 25,000), respectively | 5 | 5 |

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| | | |
|--------------------------------------------|-----------|-----------|
| Additional paid-in capital | 18,686 | 17,298 |
| Accumulated deficit | (18,160) | (13,867) |
| Total stockholders' equity | 531 | 3,436 |
| Total liabilities and stockholders' equity | \$ 3,520 | \$ 7,500 |

See accompanying notes to unaudited condensed financial statements.

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

| | Nine months ended September 30 | |
|----------------------------------------------------------------------|--------------------------------|-----------------|
| | 2015 | 2014 |
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (4,293 |) \$ (3,315 |
| Reconciliation of Net Loss to Net Cash Used in Operating Activities: | | |
| Amortization of deferred financing costs | 55 | 129 |
| Depreciation | 211 | 140 |
| Loss on disposal of assets for lease | 106 | 67 |
| Allowance for doubtful accounts | 119 | 104 |
| Stock-based compensation expense | 549 | 178 |
| Changes in Operating Assets and Liabilities: | | |
| Trade accounts receivable | (203 |) (186 |
| Prepaid expenses and other current assets | 40 | (122 |
| Accounts payable | (28 |) (39 |
| Accrued expenses | 237 | 345 |
| Deferred revenue | 716 | 439 |
| Net Cash Used in Operating Activities | (2,491 |) (2,260 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to property and equipment | (195 |) (5 |
| Change in restricted cash | 2,100 | - |
| Purchase of assets for lease | (484 |) (391 |
| Net Cash Provided by (Used in) Investing Activities | 1,421 | (396 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of common stock | 999 | 10,010 |
| Stock options exercised | 14 | - |
| Offering costs | (174 |) (1,959 |
| Payments of loans payable | (2,000 |) (45 |
| Payments of equipment leases | - | (111 |
| Net Cash Provided by (Used in) Financing Activities | (1,161 |) 7,895 |
| INCREASE (DECREASE) IN CASH | (2,231 |) 5,239 |
| CASH, BEGINNING OF PERIOD | 4,156 | 734 |
| CASH, END OF PERIOD | \$ 1,925 | \$ 5,973 |
| Cash paid for interest | \$ 19 | \$ 23 |

Supplemental disclosure of noncash financing activity:

| | | |
|-------------------------------------------------|------|----------|
| Conversion of preferred stock into common stock | \$ - | \$ 6,707 |
|-------------------------------------------------|------|----------|

See accompanying notes to unaudited condensed financial statements.

Semler Scientific, Inc.

Notes to Condensed Financial Statements

Unaudited

(In thousands, except share and per share amounts)

1. Basis of Presentation

Semler Scientific, Inc., a Delaware corporation (“Semler” or “the Company”), prepared the unaudited interim financial statements included in this report in accordance with United States generally accepted accounting principles (“U.S. GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) for interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company’s annual report on Form 10-K initially filed with the SEC on February 13, 2015 (the “Annual Report”), as amended. The balance sheet as of December 31, 2014 included in this report has been derived from the audited financial statements included in the Annual Report. In the opinion of management, these financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented. The results of operations for the interim periods shown in this report are not necessarily indicative of the results that may be expected for any future period, including the full year. Items in prior year financial statements have been adjusted to conform with the current year presentation.

Initial Public Offering

In February 2014, the Company completed its initial public offering (“IPO”) in which it issued and sold 1,430,000 shares of its common stock at a public offering price of \$7.00 per share. The Company received net proceeds of \$7,403 after deducting underwriting discounts and commissions of \$848 and other offering expenses of approximately \$1,759. The Company incurred \$648 of the offering expenses in 2013, and incurred \$1,959 of such expenses in the first half of 2014. The Company granted the underwriter an overallotment option to acquire an additional 214,500 shares of its common stock, which expired April 6, 2014 unexercised, and issued the underwriter warrants to acquire an aggregate of 71,500 shares of its common stock at an exercise price of \$8.75 per share, which became exercisable February 20, 2015 and expire February 20, 2019. Upon the closing of the IPO, all shares of the Company’s then-outstanding Series A convertible Preferred Stock (1,468,402), Series A-1 convertible Preferred Stock (293,750) and Series A-2 convertible Preferred Stock (250,000) automatically converted into an aggregate of 2,012,152 shares of common stock. In addition, the Company’s then outstanding warrants to acquire an aggregate of 1,067,210 shares of

Series A convertible Preferred Stock and 228,656 shares of Series A-1 convertible Preferred Stock were cashlessly exercised at the IPO price for an aggregate of 479,115 shares of common stock. All other outstanding warrants of the Company became exercisable for common stock effective upon the IPO in accordance with their terms. In September 2015, the Company amended the terms of all of its outstanding warrants to acquire shares of its common stock (other than the underwriter warrants to acquire an aggregate of 71,500 shares) to provide that all such warrants expire July 31, 2023.

2.

Going Concern

The Company has incurred recurring losses since inception and expects to continue to incur losses as a result of costs and expenses related to the Company's marketing and other promotional activities, research and continued development of its product. As of September 30, 2015, the Company had negative working capital of \$487, cash of \$1,925 and stockholders' equity of \$531. The Company's principal sources of cash have included the issuance of equity securities, and to a lesser extent, borrowings under loan agreements and revenue from leasing its product and providing testing services. To increase revenues, the Company's operating expenses will continue to grow and, as a result, the Company will need to generate significant additional revenues to achieve profitability. In order to execute on its business plan, and given current available cash the Company anticipates that it will need to raise additional capital at opportune times.

The Company's financial statements as of September 30, 2015 have been prepared under the assumption that the Company will continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to obtain additional equity or debt financing, attain further operating efficiencies and, ultimately, to generate additional revenue. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company can give no assurances that additional capital that the Company is able to obtain, if any, will be sufficient to meet the Company's needs. If the Company is unable to raise additional capital or increase revenue from leasing its product and providing testing services within the next twelve months to continue to fund operations at its current cash expenditure levels, the Company's operations will need to be curtailed. The foregoing conditions raise substantial doubt about the Company's ability to continue as a going concern.

Semler Scientific, Inc.**Notes to Condensed Financial Statements****Unaudited****(In thousands, except share and per share amounts)****3. Assets for Lease**

Assets for lease consist of the following:

| | September 30, 2015 | December 31, 2014 |
|--------------------------------|-----------------------|----------------------|
| Assets for lease | \$ 1,259 | \$ 956 |
| Less: Accumulated Depreciation | (403) | (283) |
| Assets for lease, net | \$ 856 | \$ 673 |

Depreciation expense amounted to \$72 and \$48 for the three months ended September 30, 2015 and September 30, 2014, respectively. Depreciation expense amounted to \$195 and \$140 for the nine months ended September 30, 2015 and September 30, 2014, respectively. Reduction to accumulated depreciation for returned items was \$34 and \$21 for the three months ended September 30, 2015 and September 30, 2014, respectively. Reduction to accumulated depreciation for returned items was \$75 and \$69 for the nine months ended September 30, 2015 and September 30, 2014, respectively.

4. Deferred Financing Costs

As of September 30, 2015 and December 31, 2014, deferred financing costs have the net amounts of \$0 and \$55, respectively. The amounts amortized to interest expense were \$18 and \$85 for the three months ended September 30, 2015 and September 30, 2014, respectively. The amounts amortized to interest expense were \$55 and \$129 for the nine months ended September 30, 2015 and September 30, 2014, respectively. Per details in Note 6, leases were paid off early due to the opening of a new line of credit, resulting in acceleration of the expensing of the outstanding deferred financing costs.

5. Accrued Expenses

Accrued expenses consist of the following:

| | September 30, 2015 | December 31, 2014 |
|------------------------|-----------------------|----------------------|
| Offering Costs | \$ 227 | \$ 407 |
| Compensation | 726 | 721 |
| Miscellaneous Accruals | 599 | 235 |
| Total Accrued Expenses | \$ 1,552 | \$ 1,363 |

The accumulated offering costs that were accrued pertain to consulting fees associated with securing equity financing for the Company prior to the IPO. Prior to becoming Chief Executive Officer (“CEO”), the Company’s current CEO performed consulting services for the Company, which included managing finance, sales, marketing, operational and strategic planning for our company, as well as assistance and strategic guidance in securing financing.

6. Commitments and Contingencies

Facilities Leases

For the three months ended September 30, 2015, the Company recognized \$81 in facilities lease expense. For the nine months ended September 30, 2015, the Company recognized \$165 in facilities lease expense. The Company had no material facilities leases for the three and nine months ended September 30, 2014 and had no rent expense for such period.

On September 23, 2014, the Company entered into a 36-month lease agreement for office space for the sales and marketing team located in Menlo Park, CA. The lease term commenced February 1, 2015 and is effective through January 31, 2018. Payments required under the terms of the lease are \$17.0 per month from February 2015 to January 2016, \$17.5 per month from February 2016 to January 2017, and \$18.0 per month from February 2017 to January 2018. The Company anticipates total future lease payments of \$50.8 for the year ended December 31, 2015; \$209.1 for the year ended December 31, 2016; \$215.4 for the year ended December 31, 2017; and \$18.0 for the year ended December 31, 2018. On July 15, 2015, the Company entered into a 30-month sublease agreement for the Menlo Park office space, which commenced August 1, 2015 and is effective

Semler Scientific, Inc.

Notes to Condensed Financial Statements

Unaudited

(In thousands, except share and per share amounts)

through the term of the lease, January 31, 2018. Payments required to the Company under the terms of the sublease are \$15.5 per month from August 2015 to July 2016, \$16.0 per month from August 2016 to July 2017, and \$16.5 per month from August 2017 to January 2018. The Company anticipates receipt of total future sublease payments of \$46.5 for the year ended December 31, 2015; \$188.6 for the year ended December 31, 2016; \$194.4 for the year ended December 31, 2017; and \$16.5 for the year ended December 31, 2018. The Company recorded an expense of \$50, which represented the difference between estimated cash payments on the lease and cash receipts from the sublease. The Company recorded the resulting long-term liability as accrued rent on the Company's balance sheet.

Equipment Leases and Loans Payable

On February 9, 2011, the Company entered into an Equipment Finance Agreement with U.S. Bancorp Business Equipment Finance Group. Pursuant to the agreement, the Company obtained a \$39 secured loan for a 48-month term that had an annual fixed interest rate of 13%. The loan was secured by the related leased equipment. Under the agreement, the Company made monthly payments consisting of \$1 of principal plus any accrued interest. The agreement provided for customary events of default. This loan was personally guaranteed by a Company director and a principal stockholder of the Company. This facility was retired in September 2014.

On May 27, 2011, the Company entered into an Equipment Finance Agreement with U.S. Bancorp Business Equipment Finance Group. Pursuant to the Agreement, the Company obtained a \$109 secured loan for a 60-month term that had an annual fixed interest rate of 6%. The loan was secured by the related leased equipment. Under the Agreement, the Company made monthly payments consisting of \$2 of principal plus any accrued interest. The Agreement provided for customary events of default. This loan was personally guaranteed by a Company director and a principal stockholder of the Company. This facility was retired in September 2014.

At various dates in 2011, the Company entered into Lease Agreements with Lease Corporation of America. Pursuant to these agreements, the Company obtained an aggregate amount of \$66 for a 60-month term that had variable annual interest rates of approximately 14%. The leases were secured by the related leased equipment. Under the agreements, the Company made monthly payments of approximately \$1 of principal plus any accrued interest. The agreements provided for customary events of default. The leases were personally guaranteed by a principal stockholder of the

Company. This facility was retired in September 2014.

On June 17, 2011, the Company entered into a loan agreement with First Republic Bank. Pursuant to the loan agreement, the Company obtained a \$150 secured loan for a 60-month term that had a variable interest rate based on First Republic's Prime plus a spread of 1.75% p.a. and a floor of 3.25% p.a. The initial interest rate was 5% p.a. Under the loan agreement, the Company made monthly payments consisting of \$3 of principal plus any accrued interest. The loan agreement provided for customary events of default. This loan was personally guaranteed by a principal stockholder of the Company. This loan agreement was retired in September 2014.

On September 13, 2011, the Company entered into an additional loan agreement with First Republic Bank. Pursuant to the loan agreement, the Company obtained a \$150 loan for a 60-month term that had a variable annual interest rate based on First Republic's Prime plus a spread of 1.75% and a floor of 3.25%. The initial interest rate was 5%. Under the loan agreement, the Company made monthly payments consisting of \$3 of principal plus any accrued interest. The loan agreement provided for customary events of default. This loan was personally guaranteed by a principal stockholder of the Company. This loan agreement was retired in September 2014.

On September 30, 2014, the Company entered into a revolving line of credit with First Republic Bank. Pursuant to the line of credit agreement, the Company may borrow up to \$2,000 for a 12-month term that has a variable annual interest rate based on First Republic's Prime less a spread of 2.0% p.a. The initial interest rate is 1.25% p.a. Under the line of credit agreement, the Company will make monthly payments consisting of \$2 of interest, and an annual payment consisting of \$2,002 principal plus any accrued interest. The line of credit agreement provides for customary events of default. This line of credit is secured by a \$2,100 collateral cash account in the Company's name at First Republic. As of September 30, 2015, the Company was in compliance with the material terms of this facility. The line of credit was retired and the collateral cash account was closed in September 2015.

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Notes to Condensed Financial Statements

Unaudited

(In thousands, except share and per share amounts)

Interest expense under these obligations for the three months ended September 30, 2015 and 2014 was \$6 and \$4, respectively. Interest expense under these obligations for the nine months ended September 30, 2015 and 2014 was \$19 and \$13, respectively.

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 had 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.

7.

Net Loss Per Common Share

Because the Company was in a loss position for each of the periods presented, diluted net loss per share is the same as basic net loss per share for each period as the inclusion of all potential common shares outstanding would have been anti-dilutive. The following outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because including them would have been anti-dilutive:

| | Three months ended | | Nine months ended | |
|--------------------------------------|--------------------|---------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Weighted average shares outstanding: | | | | |
| Convertible preferred stock | - | - | - | 414,267 |
| Convertible preferred stock warrants | - | - | - | 326,134 |
| Common stock warrants | 359,714 | 359,714 | 359,714 | 285,655 |
| Options | 852,040 | 389,663 | 768,236 | 354,951 |
| Total | 1,211,754 | 749,377 | 1,127,950 | 1,381,007 |

8. Stock-Based Compensation

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 the stockholder-approved 2014 Stock Incentive Plan ("2014 Plan"). Stockholder approval of the 2014 Plan became effective in September 2014. The 2014 Plan provides 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, 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. The Share Reserve was 638,640 shares for the year ending December 31, 2015 as of September 30, 2015. The Board approved an increase of 1,500,000 shares, which was submitted to the stockholders for approval on October 29, 2015.

In light of stockholder approval of the 2014 Plan, the Company no longer grants equity awards under the 2007 Plan. As of September 30, 2015, 0 shares of an aggregate total of 407,500 shares were available for future stock-based compensation grants

Semler Scientific, Inc.**Notes to Condensed Financial Statements****Unaudited****(In thousands, except share and per share amounts)**

under the 2007 Plan and 149,960 shares of an aggregate total of 638,640 shares were available for future stock-based compensation grants under the 2014 Plan.

Aggregate intrinsic value represents the difference between the closing market value as of September 30, 2015 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 2015 is as follows:

| | Options Outstanding | | Weighted | Aggregate |
|--------------------------------------|---------------------|----------------|-----------------|-----------------|
| | Number of | Weighted | Average | Intrinsic Value |
| | Stock | Average | Remaining | (in thousands) |
| | Options | Exercise Price | Contractual | |
| | Outstanding | | Term (In Years) | |
| Balance, January 1, 2015 | 649,500 | \$ 1.49 | 7.44 | \$ 474 |
| Options granted | 271,300 | 3.03 | | |
| Options exercised | (7,051) | 2.10 | | |
| Options forfeited | (32,620) | 2.14 | | |
| Balance, September 30, 2015 | 881,129 | \$ 1.93 | 7.48 | \$ 1,024 |
| Exercisable as of September 30, 2015 | 508,834 | \$ 1.43 | 6.09 | \$ 837 |

The total compensation cost related to unvested stock option awards not yet recognized was \$656 and \$0 as of September 30, 2015 and 2014, respectively. The weighted average period over which the total unrecognized compensation cost related to these unvested stock awards will be recognized is 1.7 years. The total estimated grant date fair value of unvested options was \$765 and \$0 as of September 30, 2015 and 2014, respectively. The weighted average grant date fair value of options granted during the nine months ended September 30, 2015 is \$2.02 per share or an aggregate grant date fair value of \$549. The weighted average grant date fair value of options granted during the nine months ended September 30, 2014 is \$2.54 per share or an aggregate grant date fair value of \$178.

On January 1, 2015 the Company's Board of Directors granted an option to acquire an aggregate of 75,000 shares under the 2014 Plan. On May 1, 2015 the Company's Board of Directors granted options to acquire an aggregate of

50,000 shares under the 2014 Plan. On July 21, 2015, the Company's Compensation Committee granted options to acquire an aggregate of 111,300 shares under the 2014 Plan. The options from all three grant dates vest on a monthly schedule over 48 months such that they are vested in full on the four-year anniversary of the grant date. On July 31, 2015 the Company's Compensation Committee granted options to the Board of Directors to acquire an aggregate of 35,000 shares under the 2014 Plan. The options from this grant date vested immediately upon date of grant such that they are vested in full on the grant date.

In September 2015, the Company amended the terms of all of its outstanding warrants to acquire shares of its common stock (other than the underwriter warrants to acquire an aggregate of 71,500 shares) to provide that all such warrants expire July 31, 2023. The Company has recorded an expense of \$363 as it relates to stock based compensation during the quarter ended September 30, 2015 for this change in expiration terms.

Determining the Fair Value of Stock Options

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|--------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Expected term (in years) | 5 | 5 | 5 | 5 |
| Risk-free interest rate | 1.5 - 1.7 % | 1.7 % | 1.5 - 1.7 % | 1.7 % |
| Expected volatility | 83.0 % | 83 % | 82.9 % | 83 % |
| Expected dividend rate. | 0 % | 0 % | 0 % | 0 % |

The assumptions are based on the following for each of the years presented:

Semler Scientific, Inc.

Notes to Condensed Financial Statements

Unaudited

(In thousands, except share and per share amounts)

Valuation Method - The Company estimates the fair value of its stock options using the Black-Scholes option pricing model.

Expected Term - The Company estimates the expected term consistent with the simplified method identified by the SEC. The Company elected to use the simplified method because of its limited history of stock option exercise activity and its stock options meet the criteria of the “plain-vanilla” options as defined by the SEC. The simplified method calculates the expected term as the average of the vesting and contractual terms of the award.

Volatility - Because the Company has limited trading history by which to determine the volatility of its own common stock price, the expected volatility being used is derived from the historical stock volatilities of a representative industry peer group of comparable publicly listed companies over a period approximately equal to the expected term of the options.

Risk-free Interest Rate - The risk-free interest rate is based on median U.S. Treasury zero coupon issues with remaining terms similar to the expected term on the options.

Expected Dividend - The Company has never declared or paid any cash dividends and does not plan to pay cash dividends in the foreseeable future, and therefore, used an expected dividend yield of zero in the valuation model.

Forfeiture - The Company estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting forfeitures and records stock-based compensation expense only for those awards that are expected to vest. All stock-based payment awards are amortized on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. If the Company’s actual forfeiture rate is materially different from its estimate, the stock-based compensation expense could be significantly different from what the Company has recorded in the current period.

The Company has recorded an expense of \$485 and \$178 as it relates to stock-based compensation for the three months ended September 30, 2015 and 2014, respectively, and an expense of \$549 and \$178 as it relates to stock-based compensation for the nine months ended September 30, 2015 and 2014, respectively, which was allocated as follows based on the role and responsibility of the recipient in the Company:

| | Three months ended September 30, | | Nine months ended September 30 | |
|-------------------------------------|----------------------------------|--------|--------------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of Revenue | \$ 1 | \$ - | \$ 2 | \$ - |
| Engineering and Product Development | 9 | - | 15 | - |
| Sales and Marketing | 77 | - | 102 | - |
| General and Administrative | 398 | 178 | 430 | 178 |
| Total | \$ 485 | \$ 178 | \$ 549 | \$ 178 |

9.

Subsequent Events

At a meeting of the Board of Directors of the Company held on July 30, 2015, the Board authorized a proposal to increase the number of shares available under the 2014 Plan by 1,500,000 shares. Such proposal was submitted to and approved by the stockholders for approval at the annual stockholder's meeting on October 29, 2015. In connection with the approval, options to acquire 703,500 shares of our common stock were granted.

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, 2014, 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 February 13, 2015, as amended, 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 our Annual Report.

Overview

We are an emerging growth company that provides diagnostic and testing services to healthcare insurers and physician groups. Our mission is to develop, manufacture and market innovative proprietary products and services that assist healthcare providers in evaluating and treating chronic diseases. Our first patented and U.S. Food and Drug Administration, or FDA cleared product, introduced commercially in 2011, measured arterial blood flow in the extremities to aid in the diagnosis of peripheral arterial disease. In March 2015 we received FDA 510(k) clearance for the next generation version of this product named QuantaFlo™, which was commercially launched in August 2015. In April 2015, we announced the launch of our multi-test service offering, WellChec™, to more comprehensively evaluate patients for chronic disease. In the three months ended September 30, 2015 we had total revenue of \$1,562,000 and a net loss of \$1,580,000 compared to total revenue of \$897,000 and a net loss of \$1,466,000 in the same period in 2014. In the nine months ended September 30, 2015 we had total revenue of \$4,067,000 and a net loss of \$4,293,000 compared to total revenue of \$2,580,000 and a net loss of \$3,315,000 in the same period in 2014.

Emerging Growth Company Elections

The JOBS Act provides that an emerging growth company, such as our company, can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of these accounting standards until they would otherwise apply to private companies. We have elected to avail ourselves of this exemption. As a result, our financial statements may not be comparable to other public companies that comply with public company effective dates. In the future, we may elect to opt out of the extended period for adopting new accounting standards. If we do so, we would need to disclose such decision and it would be irrevocable.

Factors Affecting Future Results

We have not identified any factors that have a recurring effect that are necessary to understand period to period comparisons as appropriate, nor any one-time events that have an effect on the financials. We recently launched our WellChec™ testing services platform and are beginning to receive contracted orders for this service. Although we anticipate that current orders, if successfully fulfilled, will significantly impact revenue in the fourth quarter of 2015 and the first quarter of 2016. If successfully fulfilled, WellChec™ will represent a greater portion of our overall revenues. However, we cannot predict with any certainty whether or not these order trends for WellChec™ will continue, nor the anticipated impact on other items of our results of operations.

Results of Operations

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Revenue

We had revenue of \$1,562,000 for the three months ended September 30, 2015, an increase of \$665,000, or 74%, compared to \$897,000 in the same period in 2014. Our revenue is primarily generated from per-use fees or leasing of our vascular testing systems. Our third quarter revenue also includes fees for testing services with our WellChec™ platform. For licenses, we recognize revenue monthly for each unit installed with a customer. The average amount recognized each month per unit of product in the field is affected by the mix of units rented by direct customers or distributors, by price changes and by discounts. The primary reason for the increase in revenue was that the total number of installed units in the field generating monthly revenue grew 44%, and the average amount of revenue recognized per unit increased 5% as compared to 2014. We believe that growth in the number of monthly invoices is predominately due to our sales and marketing efforts, which added new customers to an established customer base. Change in the average amount of revenue recognized per unit was due to changes in the mix of customers renting units. We recognized \$160,000 of revenue from per-use fees, testing services and other sales during the three months ended September 30, 2015. We currently anticipate revenue growth in the fourth quarter of 2015 due to order volume for our WellChec™ testing services.

Operating expenses

We had total operating expenses of \$3,114,000 for the three months ended September 30, 2015, an increase of \$850,000, or 38%, compared to \$2,264,000 in the same period in 2014. The primary reasons for the increase were increased general and administrative expense, sales and marketing expense, cost of revenue, and engineering and product development expense. The changes in the various components of our operating expenses are described below.

Cost of revenue

We had cost of revenue of \$385,000 for the three months ended September 30, 2015, an increase of \$207,000, or 117%, from \$178,000 for the same period in the previous year. The primary reasons for the increase were \$79,000 associated with employees who oversee manufacturing and fulfillment operations. A portion of the increase is also due to the fact that aggregate depreciation of our vascular testing systems for lease increased \$24,000, or 51%, which corresponds to the 44% increase in the number of installed units in the field generating monthly depreciation charges, partially offset by a decrease in average depreciation per unit per month of 1%. Other cost of revenue items, such as building lease, freight and other miscellaneous items were \$70,000 higher and cost of units that were retired was \$34,000 higher in the third quarter of 2015 compared to the same period in 2014.

Engineering and product development expense

We had engineering and product development expense of \$268,000 for the three months ended September 30, 2015, an increase of \$6,000, or 3%, compared to \$262,000 in the same period in 2014. The increase was primarily due to increased salary expense of \$187,000 and increased stock compensation expense of \$7,000, which were partially offset by lower consulting costs for new product development of \$166,000, decreased clinical study expense of \$18,000, and decreased other expenses of \$4,000.

Sales and marketing expense

We had sales and marketing expense of \$1,314,000 for the three months ended September 30, 2015, an increase of \$274,000, or 26%, compared to \$1,040,000 in the same period in 2014. The increase was primarily due to higher salary expense of \$94,000 associated with having an expanded sales team as compared to the prior period, higher facility expense of \$81,000, higher stock compensation expense of \$77,000 as a result of the issuance of additional stock options and a change in terms to warrant expiration dates, higher travel expense of \$61,000, higher other

expenses of \$39,000, and higher trade show expense of \$5,000, which increases were partially offset by lower sales commissions of \$83,000, as compared to the same period in 2014.

General and administrative expense

We had general and administrative expense of \$1,147,000 for the three months ended September 30 2015, an increase of \$363,000, or 46%, compared to \$784,000 in the same period in 2014. The increase was primarily due to higher stock compensation expense of \$221,000 as a result of the issuance of additional stock options and a change in terms to warrant expiration dates, higher patent and legal expenses of \$92,000, higher medical device excise tax, state and local tax, higher insurance premiums of \$31,000, higher expense for uncollectable accounts of \$30,000, higher salaries and fees for employees, directors, and consultants of \$21,000, higher costs associated with other expenses of \$13,000, and audit and tax preparation expense of \$10,000, which increases were partially offset by lower costs associated with being a publicly traded company of \$41,000, and lower travel and other expenses of \$14,000.

Other expense

We had other expense of \$28,000 for the three months ended September 30, 2015, a decrease of \$71,000, or 71%, compared to \$99,000 in the same period in 2014. The decrease was primarily due to lower interest expense of \$75,000, which decreased due to retirement of loan and equipment lease obligations as associated deferred financing fees, partially offset by higher other expense of \$4,000.

Net loss

For the foregoing reasons, we had a net loss of \$1,580,000, or \$0.32 per share, for the three months ended September 30, 2015, an increase of \$114,000, or 8%, compared to a net loss of \$1,466,000, or \$0.31 per share, for the same period in 2014.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Revenue

We had revenue of \$4,067,000 for the nine months ended September 30, 2015, an increase of \$1,487,000, or 58%, compared to \$2,580,000 in the same period in 2014. Our revenue is primarily generated from per-use fees or leasing of our vascular testing systems. We also began generating fees for testing services with our WellChec™ platform in the second quarter of 2015. For licenses, we recognize revenue monthly for each unit installed with a customer. The average amount recognized each month per unit of product in the field is affected by the mix of units rented by direct customers or distributors, by price changes and by discounts. The primary reason for the increase in revenue was that the total number of installed units in the field generating monthly revenue grew 44%, and the average amount of revenue recognized per unit grew 1% as compared to 2014. We believe that growth in the number of monthly invoices is predominately due to our sales and marketing efforts, which add new customers to an established customer base. Change in the average amount of revenue recognized per unit was due to changes in the mix of customers renting units. We recognized \$313,000 of revenue from per-use fees, testing services, and other sales during the nine months ended September 30, 2015. We currently anticipate revenue growth in the fourth quarter of 2015 due to order volume for our WellChec™ testing services.

Operating expenses

We had total operating expenses of \$8,281,000 for the nine months ended September 30, 2015, an increase of \$2,536,000, or 44%, compared to \$5,745,000 in the same period in 2014. The primary reasons for the increase were increased sales and marketing expense, general and administrative expense, cost of revenue, and engineering and product development expense, partially offset by a decrease in other expenses. The changes in the various components of our operating expenses are described below.

Cost of revenue

We had cost of revenue of \$887,000 for the nine months ended September 30, 2015, an increase of \$383,000, or 76%, from \$504,000 for the same period in 2014. The primary reason for the increase was additional costs of \$178,000, associated with employees who oversee manufacturing and fulfillment operations. A portion of the increase is also due to the fact that aggregate depreciation of our vascular testing systems for lease increased \$55,000, or 40%, in the first nine months of 2015 compared to the same period in 2014 corresponding to the 44% increase in the number of installed units in the field generating monthly depreciation charges, partially offset by a decrease in average depreciation per unit per month of 4%. Other cost of revenue items, such as building lease, freight and other

miscellaneous items were \$113,000 higher and cost of units that were retired were \$37,000 higher in the nine months ended September 30, 2015 compared to the same period in 2014.

Engineering and product development expense

We had engineering and product development expense of \$983,000 for the nine months ended September 30, 2015, an increase of \$77,000, or 8%, compared to \$906,000 in the same period in 2014. The increase was primarily due to higher salary expense of \$559,000, increased clinical study expense of \$52,000, increased stock compensation expense of \$15,000, which were partially offset by lower consulting costs for new product development of \$546,000 and lower other expense of \$3,000.

Sales and marketing expense

We had sales and marketing expense of \$3,809,000 for the nine months ended September 30, 2015, an increase of \$1,295,000, or 52%, compared to \$2,514,000 in the same period in 2014. The increase was primarily due to higher salary expense of \$836,000 associated with having an expanded sales team as compared to the prior period, higher travel expense of \$165,000, higher facility expense of \$165,000, higher other expenses of \$104,000, higher stock compensation expense of \$102,000 as a result of the issuance of additional stock options and a change in terms to warrant expiration dates, and higher trade show expense of \$62,000, which were partially offset by lower commission expenses of \$139,000 as compared to the same period in 2014.

General and administrative expense

We had general and administrative expense of \$2,602,000 for the nine months ended September 30 2015, an increase of \$781,000, or 43%, compared to \$1,821,000 in the same period in 2014. The increase was primarily due to higher salaries and fees for employees, directors, and consultants of \$269,000, higher stock compensation expense of \$252,000 as a result of the issuance of additional stock options and a change in terms to warrant expiration dates, higher medical device excise tax, state and local tax, audit and tax preparation expense of \$131,000, higher insurance premiums of \$103,000, higher patent and legal expenses of \$76,000, higher other expenses of \$21,000, and higher expense for uncollectable accounts of \$16,000, which were partially offset by lower costs associated with being a publicly traded company of \$65,000, and lower travel expense of \$22,000.

Other expense

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We had other expense of \$79,000 for the three months ended September 30, 2015, a decrease of \$71,000, or 47%, compared to \$150,000 in the same period in 2014. The decrease was primarily due to lower interest expense of \$78,000 as a result of which

decreased due to retirement of loan and equipment lease obligations as associated deferred financing fees, partially offset by higher other expense of \$7,000.

Net loss

For the foregoing reasons, we had a net loss of \$4,293,000, or \$0.87 per share, for the nine months ended September 30, 2015, an increase of \$978,000, or 30%, compared to a net loss of \$3,315,000, or \$0.85 per share, for the same period in 2014.

Liquidity and Capital Resources

We had cash and restricted cash of \$1,925,000 at September 30, 2015 compared to \$6,256,000 (which included \$2,100,000 of restricted cash) at December 31, 2014, and total current liabilities of \$2,941,000 at September 30, 2015 compared to \$4,064,000 at December 31, 2014. As of September 30, 2015 we had negative working capital of approximately \$487,000. We had restricted cash of \$0 at September 30, 2015 compared to \$2,100,000 at December 31, 2014, which had been deposited in a cash collateral account to secure our revolving credit line, see “—Description of Indebtedness” below. On February 26, 2014, we closed the initial public offering of our common stock, pursuant to which we sold an aggregate 1,430,000 shares of our common stock at a price to the public of \$7.00 per share, and received gross proceeds of approximately \$10,010,000 before deducting underwriting discounts and commissions and other offering expenses. During the quarter ended March 31, 2015, we sold an aggregate 117,500 shares of our common stock to Mr. William H.C. Chang, an accredited investor and significant stockholder, pursuant to separate stock purchase agreements for an aggregate cash purchase price of \$498,600. During the quarter ended June 30, 2015, we issued and sold an aggregate of 143,000 shares of our common stock to an accredited investor, pursuant to a stock purchase agreement for an aggregate cash purchase price of \$500,500.

We have incurred recurring losses since inception and expect to continue to incur losses as a result of costs and expenses related to our marketing and other promotional activities, research and continued development of our vascular testing product and our testing service. Our principal sources of cash have included the issuance of equity, primarily our February 2014 initial public offering of common stock, as well as other private placements of our shares, revenue, and to a lesser extent, borrowings under loan agreements. We expect that as our revenues grow, our operating expenses will continue to grow and, as a result, we will need to generate significant additional net revenues to achieve profitability. For this reason, our independent registered public accountants’ report for the year ended December 31, 2014 included an explanatory paragraph that expresses substantial doubt about our ability to continue as a “going concern.” This doubt continues to exist.

Although we do not have any current capital commitments, we expect that over time we will increase our expenditures to continue our efforts to grow our business and commercialize products and services. Accordingly, we currently expect to make additional expenditures in both sales and marketing, and invest in our corporate infrastructure. We also expect to invest in our research and development efforts. We do not have any definitive plans as to the exact amounts or particular uses at this time, and the exact amounts and timing of any expenditure may vary significantly from our current intentions. However, in order to execute on our business plan, and given our current available cash, we anticipate that we will need to raise additional capital at opportune times. There is no assurance that additional financing will be available when needed or that management will be able to obtain financing on acceptable terms or whether or not we will generate sufficient revenues to become profitable and have positive operating cash flow. To improve operating cash flow, in July 2015, we implemented measures to reduce expenses and renegotiated longer payment terms in our existing contracts. However, there is no guarantee that our efforts will be successful or sustainable, or that we will have sufficient cash available when payments are due under the new terms. Accordingly, it is our intent to raise additional capital at opportune times. If we are unable to raise sufficient additional funds when necessary, we may need to curtail making additional expenditures and could be required to further scale back our business plans, or make other changes until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful.

Operating activities

We used \$2,491,000 of net cash in operating activities for the nine months ended September 30, 2015. Non-cash adjustments to reconcile net loss to net cash used in operating activities plus changes in operating assets and liabilities provided \$1,802,000 of cash in the nine months ended September 30, 2015. These non-cash adjustments primarily reflect stock-based compensation expense of \$549,000 as a result of the issuance of additional stock options and a change in terms to warrant expiration dates, depreciation of \$211,000, allowance for doubtful accounts of \$119,000, loss on disposal of assets for lease of \$106,000, and amortization of deferred financing costs of \$55,000. Cash provided in operating activities was primarily from deferred revenue of \$716,000, accrued expenses of \$237,000, and prepaid expenses of \$40,000, partially offset by net cash used in trade accounts receivable of \$203,000 and trade accounts payable of \$28,000.

For the same period in 2014, we used \$2,260,000 of net cash in operating activities. Non-cash adjustments to reconcile net loss to net cash used in operating activities plus changes in operating assets and liabilities provided \$1,055,000 of cash in the nine

months ended September 30, 2014. These non-cash adjustments primarily reflect stock-based compensation expense of \$178,000, depreciation of \$140,000, amortization of deferred financing costs of \$129,000, allowance for doubtful accounts of \$104,000, and loss on disposal of assets for lease of \$67,000. Cash provided in operating activities was primarily from deferred revenue of \$439,000 and accrued expenses of \$345,000, partially offset by net cash used due to trade accounts receivable of \$186,000, prepaid expenses and other current assets of \$122,000, and trade accounts payable of \$39,000.

Investing activities

We generated \$1,421,000 of net cash in investing activities for the nine months ended September 30, 2015, primarily from a change in restricted cash of \$2,100,000, partially offset by purchases of assets for lease of \$484,000 as well as fixed asset purchases of \$195,000 to support our WellChec™ platform. We used \$396,000 of net cash in investing activities for the same period in 2014, primarily for purchases of assets for lease of \$391,000 as well as fixed asset purchases of \$5,000.

Financing activities

We used \$1,161,000 in net cash in financing activities during the nine months ended September 30, 2015 due to retirement of our \$2,000,000 revolving credit line with First Republic Bank and costs of equity financing of \$174,000, partially offset by proceeds from sales of equity of \$1,014,000 (\$999,000 from equity sales to investors and \$14,000 from stock option exercises). We generated \$7,895,000 of net cash from financing activities during the nine months ended September 30, 2014, primarily from proceeds from the sale of shares of our common stock in our February 2014 initial public offering, which proceeds were partially offset by offering costs and payment of the current portion of our long-term liabilities.

Description of Indebtedness

On September 30, 2014 we entered into a revolving credit line with First Republic Bank pursuant to which we could borrow up to \$2,000,000 for a 12-month term at a variable annual interest rate based on First Republic's Prime less a spread of 2.0% p.a. The initial interest rate was 1.25% p.a. We agreed to make monthly payments consisting of \$2,000 of interest, and an annual payment consisting of \$2,000,000 principal plus any accrued by unpaid interest. The line of credit agreement provided for customary events of default and was secured by a collateral cash account at First Republic. As of September 30, 2015, we had repaid the revolving line of credit in full and it is no longer outstanding.

See Note 6 to our financial statements appearing elsewhere in this report for description of our outstanding indebtedness.

Off-Balance Sheet Arrangements

As of each of September 30, 2015 and December 31, 2014, we had no off-balance sheet arrangements.

Commitments and Contingencies

As of each of September 30, 2015 and December 31, 2014, 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.

JOBS Act

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected to avail ourselves of this extended transition period, and, as a result, we will not adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

In evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of the end of the period covered by this report to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 (1) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

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 third fiscal quarter of 2015.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Not applicable.

Item 1A. Risk Factors.

Not applicable.

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

Use of Proceeds

Our initial public offering of common stock was effected through a Registration Statement on Form S-1 (File No. 333-192362) which was declared effective by the Securities and Exchange Commission on February 20, 2014. On February 26, 2014, a total of 1,430,000 shares of common stock were sold on our behalf at an initial public offering price of \$7.00 per share, for aggregate gross offering proceeds of \$10.0 million, managed by Aegis Capital Corp. We paid to the underwriter underwriting discounts totaling approximately \$0.8 million in connection with the offering. In addition, we incurred additional costs of approximately \$1.8 million in connection with the offering, which when added to the underwriting discounts paid by us, amounts to total costs of approximately \$2.6 million. Thus, the net offering proceeds to us, after deducting underwriting discounts and offering expenses, were approximately \$7.4 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning 10% or more of any class of our equity securities or to any other affiliates. The net proceeds from the offering have been invested in money market funds. There has been no material change in the expected use of the net proceeds from our initial public offering as described in our registration statement on Form S-1.

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

| | |
|---------|------------------------------------------------------------------------------------|
| 10.1 | Form of 2014 Stock Incentive Plan Stock Option Grant Notice and Option Agreement |
| 10.2 | Form of 2007 Key Person Stock Option Plan Option Grant Notice and Option Agreement |
| 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 | Section 1350 Certification |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

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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.

November 3, 2015 **SEMLER SCIENTIFIC, INC.**

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

By: /s/ James M. Walker
James M. Walker
Chief Financial Officer