
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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: 001-37799

Tactile Systems Technology, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

41-1801204
(I.R.S. Employer
Identification Number)

1331 Tyler Street NE, Suite 200
Minneapolis, Minnesota
(Address of Principal Executive Offices)

55413
(Zip Code)

(612) 355-5100
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	(Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>			

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 4, 2017 there were 17,586,617 shares of common stock, \$0.001 par value per share, outstanding.

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Forward-Looking Information

All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business, operations and financial performance and condition, are forward-looking statements. In some cases, you can identify forward-looking statements by the following words: "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "target," "ongoing," "plan," "potential," "predict," "project," "should," "will," "would," or the negative of these terms or other comparable terminology, although not all forward-looking statements contain these words. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our results, levels of activity, performance or achievements to be materially different from the information expressed or implied by the forward-looking statements in this Quarterly Report on Form 10-Q. Forward-looking statements may include, among other things, statements relating to:

- our expectations regarding the potential market size and widespread adoption of our products;
- our ability to increase awareness of lymphedema and chronic venous insufficiency and to demonstrate the clinical and economic benefits of our solutions to clinicians and patients;
- developments and projections relating to our competitors or our industry;
- the expected growth in our business and our organization, including outside of the United States;
- our ability to achieve and maintain adequate levels of coverage or reimbursement for our products and the effect of changes to the level of Medicare coverage;
- our financial performance, our estimates of our expenses, future revenues, capital requirements and our needs for, or ability to obtain, additional financing;
- our ability to retain and recruit key personnel, including the continued development and expansion of our sales and marketing organization;
- our ability to obtain an adequate supply of components for our products from our third party suppliers;
- our ability to obtain and maintain intellectual property protection for our products or avoid claims of infringement;
- our ability to identify and develop new products;
- our compliance with extensive government regulation;
- the volatility of our stock price; and
- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act.

You should read the matters described in "Risk Factors" and the other cautionary statements made in our Annual Report on Form 10-K for the year ended December 31, 2016 and in this Quarterly Report on Form 10-Q. We cannot assure you that the forward-looking statements in this report will prove to be accurate and therefore you are encouraged not to place undue reliance on forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. You are urged to carefully review and consider the various disclosures made by us in this report and in other filings with the Securities and Exchange Commission (the "SEC") that advise of the risks and factors that may affect our business. Other than as required by law, we undertake no obligation to update or revise these forward-looking statements, even though our situation may change in the future. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments

that we may make.

PART I—FINANCIAL INFORMATION**Item 1. Financial Statements.**

Tactile Systems Technology, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except share and per share data)	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 18,096	\$ 30,701
Marketable securities	21,002	10,994
Accounts receivable, net	12,910	15,003
Inventories	9,631	6,554
Income taxes receivable	4,440	—
Prepaid expenses	708	981
Total current assets	<u>66,787</u>	<u>64,233</u>
Property and equipment, net	2,854	1,563
Other assets		
Patent costs, net	2,292	2,394
Medicare accounts receivable, long-term	2,961	2,823
Deferred income taxes	2,798	2,785
Other non-current assets	201	137
Total other assets	<u>8,252</u>	<u>8,139</u>
Total assets	<u>\$ 77,893</u>	<u>\$ 73,935</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 6,567	\$ 5,018
Accrued payroll and related taxes	3,118	6,692
Accrued expenses	1,371	1,193
Future product royalties	34	67
Income taxes payable	—	823
Total current liabilities	<u>11,090</u>	<u>13,793</u>
Long-term liabilities		
Accrued warranty reserve, long-term	610	503
Total liabilities	<u>11,700</u>	<u>14,296</u>
Stockholders' equity		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized; none issued and outstanding as of June 30, 2017 and December 31, 2016	—	—
Common stock, \$0.001 par value, 300,000,000 shares authorized; 17,567,458 shares issued and 17,541,371 shares outstanding as of June 30, 2017; 16,833,737 shares issued and outstanding as of December 31, 2016	18	17
Additional paid-in capital	67,178	62,406
Accumulated deficit	(490)	(2,773)
Accumulated other comprehensive loss	(20)	(11)
Less: treasury stock, at cost — 26,087 shares as of June 30, 2017	(493)	—
Total stockholders' equity	<u>66,193</u>	<u>59,639</u>
Total liabilities and stockholders' equity	<u>\$ 77,893</u>	<u>\$ 73,935</u>

See accompanying notes to the condensed consolidated financial statements.

Tactile Systems Technology, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<i>(In thousands, except share and per share data)</i>				
Revenues, net	\$ 26,264	\$ 19,729	\$ 46,114	\$ 33,429
Cost of goods sold	7,034	5,324	12,658	9,135
Gross profit	19,230	14,405	33,456	24,294
Operating expenses				
Sales and marketing	10,645	7,598	20,811	14,879
Research and development	1,465	1,049	2,583	2,029
Reimbursement, general and administrative	6,390	3,966	12,264	7,380
Total operating expenses	18,500	12,613	35,658	24,288
Income (loss) from operations	730	1,792	(2,202)	6
Other income	64	5	119	10
Income (loss) before income taxes	794	1,797	(2,083)	16
Income tax (benefit) expense	(2,993)	809	(4,366)	8
Net income	3,787	988	2,283	8
Convertible preferred stock dividends	—	509	—	1,023
Allocation of undistributed earnings to preferred stockholders	—	302	—	—
Net income (loss) attributable to common stockholders	\$ 3,787	\$ 177	\$ 2,283	\$ (1,015)
Net income (loss) per common share attributable to common stockholders				
Basic	\$ 0.22	\$ 0.05	\$ 0.13	\$ (0.30)
Diluted	\$ 0.20	\$ 0.04	\$ 0.12	\$ (0.30)
Weighted-average common shares used to compute net income (loss) per common share attributable to common stockholders				
Basic	17,176,386	3,406,420	17,028,237	3,349,873
Diluted	18,814,565	4,846,327	18,713,421	3,349,873

See accompanying notes to the condensed consolidated financial statements.

Tactile Systems Technology, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 3,787	\$ 988	\$ 2,283	\$ 8
Other comprehensive loss:				
Unrealized losses on available-for-sale securities	(8)	—	(21)	—
Income tax related to items of other comprehensive loss	6	—	12	—
Total other comprehensive loss	(2)	—	(9)	—
Comprehensive income	\$ 3,785	\$ 988	\$ 2,274	\$ 8

See accompanying notes to the condensed consolidated financial statements.

Tactile Systems Technology, Inc.
Condensed Consolidated Statements of Stockholders' Equity (Deficit)
(Unaudited)

(In thousands, except share data)	Series B Preferred Stock		Series A Preferred Stock		Common Stock		Additional Paid-In Capital		Accumulated Deficit		Other Comprehensive Loss		Treasury Stock		Total
	Shares	Amount	Shares	Amount	Shares	Par Value	Capital	Deficit	Loss	Stock					
Balances, December 31, 2015															
	2,733,468	\$ 12,599	3,061,488	\$ 20,328	3,222,902	\$ 3	\$ —	\$ (5,652)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (5,649)	
Stock-based compensation	—	—	—	—	—	—	150	—	—	—	—	—	—	150	
Exercise of common stock options and warrants	—	—	—	—	191,235	—	196	—	—	—	—	—	—	196	
Preferred stock dividends	—	371	—	652	—	—	(346)	(677)	—	—	—	—	—	(1,023)	
Comprehensive income for the period	—	—	—	—	—	—	—	8	—	—	—	—	—	8	
Balances, June 30, 2016															
	2,733,468	\$ 12,970	3,061,488	\$ 20,980	3,414,137	\$ 3	\$ —	\$ (6,321)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (6,318)	
Balances, December 31, 2016															
	—	\$ —	—	\$ —	16,833,737	\$ 17	\$ 62,406	\$ (2,773)	\$ (11)	\$ —	\$ —	\$ —	\$ —	\$ 59,639	
Stock-based compensation	—	—	—	—	—	—	2,137	—	—	—	—	—	—	2,137	
Exercise of common stock options and warrants and vesting of restricted stock units	—	—	—	—	473,740	1	578	—	—	—	—	—	—	579	
Taxes paid for net share settlement of restricted stock units	—	—	—	—	—	—	(153)	—	—	—	—	—	—	(153)	
Common shares issued for employee stock purchase plan	—	—	—	—	259,981	—	2,210	—	—	—	—	—	—	2,210	
Shares repurchased to cover taxes from restricted stock award vesting	—	—	—	—	(26,087)	—	—	—	—	—	—	(493)	—	(493)	
Comprehensive income for the period	—	—	—	—	—	—	—	2,283	(9)	—	—	—	—	2,274	
Balances, June 30, 2017															
	—	\$ —	—	\$ —	17,541,371	\$ 18	\$ 67,178	\$ (490)	\$ (20)	\$ (493)	\$ —	\$ (493)	\$ —	\$ 66,193	

See accompanying notes to the condensed consolidated financial statements.

Tactile Systems Technology, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$ 2,283	\$ 8
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	664	437
Stock-based compensation expense	2,137	150
Change in allowance for doubtful accounts	(296)	300
Changes in assets and liabilities:		
Accounts receivable	2,389	1,245
Inventories	(3,077)	(164)
Income taxes	(5,263)	(904)
Prepaid expenses and other assets	354	(180)
Medicare accounts receivable – long-term	(138)	252
Accounts payable	1,255	936
Accrued payroll and related taxes	(3,574)	(1,368)
Accrued expenses	284	455
Future product royalties	(33)	(496)
Net cash (used in) provided by operating activities	<u>(3,015)</u>	<u>671</u>
Cash flows from investing activities		
Proceeds from sales of marketable securities	1,000	—
Purchases of marketable securities	(11,049)	—
Purchases of property and equipment	(1,516)	(312)
Patent costs	(23)	(6)
Other investments	(145)	—
Net cash used in investing activities	<u>(11,733)</u>	<u>(318)</u>
Cash flows from financing activities		
Taxes paid for net share settlement of restricted stock units	(153)	—
Proceeds from exercise of common stock options and warrants	579	196
Proceeds from the issuance of common stock from the ESPP	2,210	—
Shares repurchased to cover taxes from restricted stock award vesting	(493)	—
Fees paid for IPO	—	(890)
Net cash provided by (used in) financing activities	<u>2,143</u>	<u>(694)</u>
Net change in cash and cash equivalents	<u>(12,605)</u>	<u>(341)</u>
Cash and cash equivalents – beginning of period	<u>30,701</u>	<u>7,060</u>
Cash and cash equivalents – end of period	<u>\$ 18,096</u>	<u>\$ 6,719</u>
Supplemental cash flow disclosure		
Cash paid for taxes	<u>\$ 898</u>	<u>\$ 964</u>
Non-cash investing activities:		
Acquisition of assets included in accounts payable	<u>\$ 294</u>	<u>\$ 81</u>

See accompanying notes to the condensed consolidated financial statements.

Tactile Systems Technology, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Nature of Operations and Basis of Presentation

Nature of Operations

Tactile Systems Technology, Inc. (“we,” “us,” and “our”) is the sole manufacturer and distributor of the Flexitouch and Entre systems, medical devices that help control symptoms of lymphedema, a chronic and progressive medical condition, and the Actitouch system, a medical device used to treat venous leg ulcers and chronic venous insufficiency. We provide our products for a patient’s use in the home and sell them throughout the United States through referrals from clinicians diagnosing and treating lymphatic and vascular disorders. We do business as “Tactile Medical.”

Basis of Presentation

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial reporting and pursuant to the rules and regulations of the SEC. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including those which are normal and recurring) considered necessary for a fair presentation of the interim financial information have been included. We have reclassified certain prior year amounts to conform to the current year’s presentation.

The results for the three and six months ended June 30, 2017 are not necessarily indicative of results to be expected for the year ending December 31, 2017, or for any other interim period or for any future year. Our business is affected by seasonality. In the first quarter of each year, when most patients have started a new insurance year and have not yet met their annual out-of-pocket payment obligations, we experience substantially reduced demand for our products. We typically experience higher sales in the third and fourth quarters as a result of patients having paid their annual insurance deductibles in full, thereby reducing their out-of-pocket costs for our products, and because patients often spend the remaining balances in their flexible spending accounts at that time. This seasonality applies only to purchases of our products by patients covered by commercial insurance and is not relevant to Medicare, Medicaid, or Veterans Administration hospitals, as those payers do not have plans that include patient deductibles for purchases of our products. The condensed consolidated interim financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

We were originally incorporated in Minnesota under the name Tactile Systems Technology, Inc. on January 30, 1995. During 2006, we established a merger corporation and subsequently, on July 21, 2006, merged with and into this merger corporation, resulting in us being reincorporated as a Delaware corporation. The resulting corporation assumed the name Tactile Systems Technology, Inc. In September 2013, we began doing business as “Tactile Medical.”

In connection with preparing for our initial public offering, our board of directors and stockholders approved a 1-for-2.820044 reverse stock split of our capital stock. The reverse stock split became effective in June 2016. All share and per share amounts in these condensed consolidated financial statements and notes thereto have been retroactively adjusted for all periods presented to give effect to this reverse stock split, including reclassifying an amount equal to the reduction in par value of common stock to additional paid-in capital.

On August 2, 2016 we closed the initial public offering of our common stock, which resulted in the sale of 4,120,000 shares of our common stock at a public offering price of \$10.00 per share. We received net proceeds from the initial public offering of approximately \$35.4 million, after deducting underwriting discounts and approximately \$2.9 million of transaction expenses. In connection with the closing of the initial public offering, all of our outstanding redeemable convertible preferred stock automatically converted to common stock on August 2, 2016. At August 2, 2016, we did not have any redeemable convertible preferred stock issued or outstanding. The significant increase in common stock outstanding in connection with the initial public offering impacts the year-over-year comparability of our earnings per share calculations.

Basis of Consolidation

The condensed consolidated financial statements include the accounts of Tactile Systems Technology, Inc. and its wholly owned subsidiary, Swelling Solutions, Inc., after elimination of intercompany accounts and transactions.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant Accounting Policies

During the six months ended June 30, 2017 there were no material changes in our significant accounting policies. See Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 for information regarding our significant accounting policies.

Recent Accounting Pronouncements

We are an “emerging growth company” as defined by the Jumpstart Our Business Startups (“JOBS”) Act of 2012. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can selectively delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption and, as a result, our financial statements may not be comparable to the financial statements of issuers that are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. Section 107 of the JOBS Act provides that we can elect to opt out of the extended transition period at any time, which election is irrevocable.

In May 2014, the Financial Accounting Standards Board (“FASB”), issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*.” The new section will replace Section 605, “*Revenue Recognition*,” and creates modifications to various other revenue accounting standards for specialized transactions and industries. The section is intended to conform revenue accounting principles with a concurrently issued International Financial Reporting Standards to reconcile previously differing treatment between U.S. practices and those of the rest of the world and to enhance disclosures related to disaggregated revenue information. The updated guidance is effective for interim and annual reporting periods beginning on or after December 15, 2018, for private companies; this effective date is applicable for us due to the JOBS Act exemption described above. Therefore, we plan to further evaluate the timing and anticipated impact of the adoption of this updated guidance on our consolidated financial statements in future periods.

In February 2016, the FASB issued ASU 2016-02, “*Leases*” (Topic 842), which supersedes the existing guidance for lease accounting, “*Leases*” (Topic 840). ASU 2016-02 requires lessees to recognize a lease liability and a right-of-use asset for all leases. Lessor accounting remains largely unchanged. The amendments in this ASU are effective for interim and annual periods beginning after December 15, 2019 for private companies; this effective date is applicable to us due to the JOBS Act exemption described above. Early adoption is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial adoption, with an option to elect to use certain transition relief. We plan to further evaluate the timing and anticipated impact of the adoption of this ASU on our consolidated financial statements in future periods.

In June 2016, the FASB issued ASU No. 2016-13, “*Financial Instruments — Credit Losses*,” to require the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The ASU is effective for interim and annual periods beginning after December 15, 2020, for private companies; this effective date is applicable to us due to the JOBS Act exemption described above. Therefore, we plan to further evaluate the timing and anticipated impact of the adoption of this ASU on our consolidated financial statements in future periods.

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In August 2016, the FASB issued ASU No. 2016-15, “*Statement of Cash Flows (Topic 230) — Classification of Certain Cash Receipts and Cash Payments*,” to provide clarity on how certain cash receipt and cash payment transactions are presented and classified within the statement of cash flows. The ASU is effective for interim and annual periods beginning after December 15, 2018, for private companies; this effective date is applicable for us due to the JOBS Act exemption described above. Therefore, we plan to further evaluate the timing and anticipated impact of the adoption of this ASU on our consolidated financial statements in future periods.

Cash and Cash Equivalents

Cash and cash equivalents consist of all cash on hand, deposits and funds invested in available-for-sale securities with original maturities of three months or less at the time of purchase. At June 30, 2017, our cash was held primarily in checking and money market accounts.

Note 2. Marketable Securities

Our investments in marketable securities are classified as available-for-sale and consist of the following:

(In thousands)	June 30, 2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and agency obligations	\$ 13,003	\$ 1	\$ 34	\$ 12,970
Corporate debt securities and certificates of deposit	8,037	1	6	8,032
Marketable securities	<u>\$ 21,040</u>	<u>\$ 2</u>	<u>\$ 40</u>	<u>\$ 21,002</u>

(In thousands)	December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government and agency obligations	\$ 9,011	\$ 2	\$ 17	\$ 8,996
Corporate debt securities and certificates of deposit	2,000	—	2	1,998
Marketable securities	<u>\$ 11,011</u>	<u>\$ 2</u>	<u>\$ 19</u>	<u>\$ 10,994</u>

Our investments in marketable debt securities all have contractual maturities of 12 to 24 months from June 30, 2017. At June 30, 2017, marketable debt securities valued at \$3.0 million were in an unrealized gain position totaling \$2,000, and marketable debt securities valued at \$18.0 million were in an unrealized loss position totaling \$41,000 (all had been in an unrealized loss position for less than 12 months). At December 31, 2016, marketable debt securities valued at \$4.0 million were in an unrealized gain position totaling \$2,000, and marketable debt securities valued at \$7.0 million were in an unrealized loss position totaling \$19,000 (all had been in an unrealized loss position for less than 12 months).

Net pre-tax unrealized losses for marketable debt securities of \$39,000 at June 30, 2017 were recorded as a component of accumulated other comprehensive loss in stockholders' equity. Marketable debt securities valued at \$1.0 million were sold during the six months ended June 30, 2017 with no resulting gain or loss.

Note 3. Patent Costs, Net

Our patents, all of which are subject to amortization, are summarized as follows:

(In thousands)	As of	As of
	June 30, 2017	December 31, 2016
Patents	\$ 3,485	\$ 3,462
Less: accumulated amortization	(1,193)	(1,068)
Net patents	<u>\$ 2,292</u>	<u>\$ 2,394</u>

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Amortization expense was \$0.1 million for each of the three months ended June 30, 2017 and 2016 and \$0.1 million for each of the six months ended June 30, 2017 and 2016. Future amortization expenses are expected as follows:

(In thousands)	
2017 (July 1 - December 31)	\$ 125
2018	249
2019	249
2020	249
2021	249
Thereafter	1,171
Total	\$ 2,292

Note 4. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	As of	As of
	June 30, 2017	December 31, 2016
Warranty	\$ 348	\$ 290
Travel and business	308	308
Legal and consulting	343	275
Deferred rent	162	159
Clinical	74	45
Other	136	116
Total	\$ 1,371	\$ 1,193

Note 5. Line of Credit — Bank

At December 31, 2016 we had a \$2.0 million line of credit with a bank that bore interest based on the prime rate. There was no outstanding balance on the line of credit as of December 31, 2016. The line of credit expired on May 11, 2017, and there was no outstanding balance on the line as of that date

Note 6. Commitments and Contingencies

Lease Obligations

In March 2008, we entered into a non-cancelable operating lease agreement for building space for our corporate headquarters that provides for monthly rent, real estate taxes and operating expenses that was extended to July 31, 2021.

In July 2016, we entered into a non-cancelable operating lease agreement for building space to accommodate the relocation of our manufacturing, quality, and research and development functions. The lease agreement extends through November 2021 and provides for monthly rent, real estate taxes and operating expenses.

Rent expense was \$0.3 million and \$0.2 million for the three months ended June 30, 2017 and 2016, respectively, and \$0.5 million and \$0.4 million for the six months ended June 30, 2017 and 2016, respectively.

In July 2016, we entered into a fleet vehicle lease program for certain members of our field sales organization. At June 30, 2017, we had 50 leased vehicles under this program.

We also have operating lease agreements for certain computer and office equipment that expire in 2020. The leases provide an option to purchase the related equipment at fair market value at the end of the lease.

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Future base minimum lease payments for all lease obligations are expected to be as follows for the years ending December 31:

(In thousands)	Buildings	Computer/Office Equipment	Fleet Car Program	Total
2017 (July 1 - December 31)	\$ 347	\$ 30	\$ 103	\$ 480
2018	714	52	82	848
2019	733	39	—	772
2020	752	22	—	774
2021	526	—	—	526
Thereafter	—	—	—	—
Total	\$ 3,072	\$ 143	\$ 185	\$ 3,400

Major Vendors

We had purchases from three vendors that collectively accounted for 36% and 41% of total purchases for the three months ended June 30, 2017 and 2016, respectively, and 36% and 35% of total purchases for the six months ended June 30, 2017 and 2016, respectively.

Purchase Commitments

We issued purchase orders in January 2017 totaling \$7.8 million, of which \$6.7 million remained as of June 30, 2017, for inventory that we expect to receive between July 2017 and February 2018. We issued purchase orders in May 2017 totaling \$1.3 million for inventory that we expect to receive in February and March of 2018.

Employment Agreements

We have entered into employment agreements with certain of our officers. The agreements provide for payment of severance ranging from nine to 15 months of then-current annualized base salary in the event of termination by us without cause or by the employee for good reason or, in the case of two of the officers, death, disability, or as a result of a qualifying termination after a change in control. The agreements also provide for payment of an amount equal to nine to 15 months of the then-current annual target bonus in the event of termination by us without cause or by the employee for good reason, or, in the case of two of the officers, death, disability, or as a result of a qualifying termination after a change in control. In addition, the agreements provide for the vesting of certain equity compensation through the date of termination in the event of termination by us without cause or by the employee for good reason.

Retirement Plan

We maintain a 401(k) retirement plan for our employees in which eligible employees can contribute a percentage of their pre-tax compensation. We may also make discretionary contributions to the 401(k) plan. We made contributions of \$48,000 and \$39,000 for the three months ended June 30, 2017 and 2016, respectively, and \$93,000 and \$75,000 for the six months ended June 30, 2017 and 2016, respectively.

Note 7. Stockholders' Equity

We completed an initial public offering of our common stock on August 2, 2016, in which we sold 4,120,000 shares of our common stock at a public offering price of \$10.00 per share. Immediately prior to the completion of the initial public offering, all then-outstanding shares of our Series A and Series B preferred stock were converted into 5,924,453 shares of our common stock. Our Series A preferred stock converted to common stock at a ratio of 1-for-1.03 and our Series B preferred stock converted to common stock at a ratio of 1-for-1. In addition, immediately prior to the completion of the initial public offering, we issued 2,354,323 additional shares of our common stock that our Series A and Series B preferred stockholders were entitled to receive in connection with the conversion of the preferred stock, and we issued 956,842 shares of our common stock to pay accrued dividends on our Series B preferred stock. We also paid \$8.2 million in cumulative accrued dividends to our Series A convertible preferred stockholders in connection with the initial public offering, including \$0.1 million of dividends paid to the holders of the common restricted shares.

Stock-Based Compensation

Our 2016 Equity Incentive Plan (the “2016 Plan”) authorizes us to grant stock options, stock appreciation rights, restricted stock, stock units and other stock-based awards to employees, non-employee directors and certain consultants and advisors. There were up to 4,800,000 shares of our common stock initially reserved for issuance pursuant to the 2016 Plan. The 2016 Plan provides that the number of shares reserved and available for issuance under the 2016 Plan will automatically increase annually on January 1 of each calendar year, commencing in 2017 and ending on and including January 1, 2026, by an amount equal to the lesser of: (a) 5% of the number of common shares of stock outstanding as of December 31 of the immediately preceding calendar year, or (b) 2,500,000 shares; provided, however, that our Board of Directors may determine that any annual increase be a lesser number. In addition, all awards granted under our 2007 Omnibus Stock Plan and our 2003 Stock Option Plan that were outstanding when the 2016 Plan became effective and that are forfeited, expire, are cancelled, are settled for cash or otherwise not issued, will become available for issuance under the 2016 Plan. Effective January 1, 2017, 841,686 shares were added to the 2016 Plan, as available for issuance thereunder, pursuant to the automatic increase feature of the 2016 Plan. As of June 30, 2017, 4,826,044 shares were available for future grant pursuant to the 2016 Plan.

Upon adoption and approval of the 2016 Plan, all of our previous equity incentive compensation plans were terminated. However, existing awards under those plans continue to vest in accordance with the original vesting schedules and will expire at the end of their original terms.

We recorded stock-based compensation expense of \$1.2 million and \$0.1 million for the three months ended June 30, 2017 and 2016, respectively, and \$2.1 million and \$0.2 million for the six months ended June 30, 2017 and 2016, respectively. This expense was allocated as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of goods sold	\$ 49	\$ 19	\$ 98	\$ 38
Sales and marketing expenses	354	42	669	84
Research and development expenses	21	—	44	—
Reimbursement, general and administrative expenses	756	14	1,326	28
Total stock-based compensation expense	\$ 1,180	\$ 75	\$ 2,137	\$ 150

Stock Options

Stock options issued to participants other than non-employees vest over four years and typically have a contractual term of ten years. The stock options granted on July 27, 2016 to our non-employee directors vested in full on May 9, 2017, the date of our 2017 annual meeting of stockholders. New stock options were granted to our non-employee directors on that date. These options vest on the earlier of May 9, 2018 or the date of our 2018 annual meeting of stockholders. These options have a contractual term of seven years. Our stock option activity for the six months ended June 30, 2017 was as follows:

(In thousands except share, per share and years data)	Options Outstanding	Weighted Average Exercise Price Per Share ¹	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value ²
Balance at December 31, 2016	1,856,299	\$ 2.69	5.5 years	\$ 25,467
Granted	39,755	21.42		
Exercised	(416,310)	1.33		8,904
Forfeited	(19,203)	8.52		
Balance at June 30, 2017	1,460,541	3.51	5.2 years	36,614
Options exercisable at June 30, 2017	1,152,453	\$ 1.92	4.6 years	\$ 30,725

- (1) The exercise price of each option granted during the period shown was equal to the market price of the underlying stock on the date of grant.
- (2) The aggregate intrinsic value of options exercised represents the difference between the exercise price of the option and the closing stock price of our common stock on the date of exercise. The aggregate intrinsic value of options outstanding represents the difference between the exercise price of the option and the closing stock price of our common stock on the last day of the quarter.

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Options exercisable of 1,329,260 as of June 30, 2016 had a weighted average exercise price of \$1.01 per share.

Stock based compensation expense included in our Condensed Consolidated Statements of Operations for stock options was \$0.3 million and \$0.1 million for the three months ended June 30, 2017 and 2016, respectively, and \$0.5 million and \$0.2 million for the six months ended June 30, 2017 and 2016, respectively.

At June 30, 2017, there was approximately \$1.1 million of total unrecognized pre-tax stock option expense under our equity compensation plans, which is expected to be recognized on a straight-line basis over a weighted average period of 2.5 years.

Stock-Settled Restricted Stock Units

Stock-settled restricted stock units granted under the 2016 Plan vest over one to three years. These awards are stock-settled with common shares. Stock-based compensation expense included in our Condensed Consolidated Statement of Operations for stock-settled restricted stock units was \$0.7 million and \$1.2 for the three and six months ended June 30, 2017, respectively. No restricted stock units had been granted as of June 30, 2016. As of June 30, 2017, there was \$5.4 million of total unrecognized pre-tax compensation expense related to outstanding stock-settled restricted stock units that is expected to be recognized over a weighted-average period of 2.4 years. Our stock-settled restricted stock unit activity for the six months ended June 30, 2017 was as follows:

(In thousands except share and per share data)	Units Outstanding	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value ⁽¹⁾
Balance at December 31, 2016	324,863	\$ 10.39	\$ 5,331
Granted	186,436	21.31	
Vested ⁽²⁾	(62,851)	10.25	
Cancelled	(2,340)	19.23	
Balance at June 30, 2017	<u>446,108</u>	\$ 14.93	\$ 12,750

(1) Intrinsic value of stock-settled restricted stock units outstanding was based on our closing stock price on the last trading day of the quarter.

(2) For the six months ended June 30, 2017, there were 1,398 restricted stock units granted to non-employee directors in lieu of their quarterly cash retainer payments. These restricted stock units were fully vested upon grant and represent the right to receive one share of common stock, per unit, upon the earlier of the directors' termination of service as a director of ours or the occurrence of a change of control of us. These restricted stock units are included in the "Granted" line in the table above due to their being fully vested upon grant and are included in the "Vested" line in the table above. On May 9, 2017, upon his departure from our board of directors, we issued 1,494 shares of common stock to Mr. Shroff, which represented the settlement of restricted stock units that had been previously granted to him in lieu of his quarterly director retainer payments. As of June 30, 2017, there were 1,630 outstanding restricted stock units that had been previously granted to non-employee directors in lieu of their quarterly director retainer payments. These restricted stock units are not included in the "Balance at June 30, 2017" line in the table above because they are fully vested.

Employee Stock Purchase Plan

Our employee stock purchase plan ("ESPP"), which was approved by our Board of Directors on April 27, 2016 and by our stockholders on June 20, 2016, allows participating employees to purchase shares of our common stock at a discount through payroll deductions. The plan is available to all of our employees and employees of participating subsidiaries. Participating employees may purchase common stock, on a voluntary after-tax basis, at a price equal to 85% of the lower of the closing market price per share of our common stock on the first or last trading day of each stock purchase period. The plan ordinarily consists of six-month purchase periods, beginning on May 16 and November 16 of each calendar year, but the initial purchase period began on July 27, 2016 and ended on May 15, 2017. As of May 15, 2017, 259,981 shares were purchased utilizing \$2.2 million of employee contributions in the initial purchase period. A total of 1.6 million shares of common stock were initially reserved for issuance under the plan, and this share reserve will automatically be supplemented each January 1, commencing in 2017 and ending on and including January 1, 2026, by an amount equal to the least of (1) 1% of the shares of our common stock outstanding on the immediately preceding December 31, (2) 500,000 shares or (3) such lesser amount as our Board of Directors may determine. Effective January 1, 2017, 168,337 shares were added to the ESPP, as available for issuance thereunder, pursuant to the automatic increase feature of the plan. As of June 30, 2017, 1,508,356 shares were available for future issuance under the ESPP. We recognized \$0.2 million and \$0.4 million in stock-based compensation expense related to the ESPP for the three and six

months ended June 30, 2017, respectively. We did not recognize any stock-based compensation expense related to the ESPP in the six months ended June 30, 2016.

Note 8. Income Taxes

We record our interim provision for income taxes by applying our estimated annual effective tax rate to our year-to-date pre-tax income and adjust the provision for discrete tax items recorded in the period. Deferred income taxes result from temporary differences between the reporting of amounts for financial statement purposes and income tax purposes. These differences relate primarily to different methods used for income tax reporting purposes, including for depreciation and amortization, warranty and vacation accruals, share-based compensation and deductions related to allowances for doubtful accounts receivable and inventory reserves.

The effective tax rate for the three months ended June 30, 2017 was (376.5)%, compared to 45.0% for the three months ended June 30, 2016, a decrease of 421.5 percentage points. The primary driver of the decrease in our effective tax rate was a significant increase in tax benefits related to share-based compensation recognized in the current quarter as compared to the previous reporting period. Significant tax deductions included windfall benefits with respect to vesting of restricted stock awards and restricted stock units, nonqualified stock options that were exercised and disqualifying dispositions of incentive stock options and ESPP shares. We recorded an income tax benefit of \$3.0 million and income tax expense of \$0.8 million for the three months ended June 30, 2017 and 2016, respectively. Our provisions for income taxes included current federal and state income tax expense, as well as deferred federal and state income tax expense.

The effective tax rate for the six months ended June 30, 2017 was 209.7%, compared to 50.0% for the six months ended June 30, 2016. The primary driver of the change in our effective tax rate was the significant increase in tax benefits related to tax-deductible share-based compensation activity as compared to the previous reporting period. This activity included the vesting of restricted stock awards and restricted stock units, excess tax benefits associated with exercises of non-qualified stock options and disqualifying dispositions of incentive stock options and ESPP shares. We recorded an income tax benefit of \$4.4 million and income tax expense of \$8,000 for the six months ended June 30, 2017 and 2016, respectively. Our provisions for income taxes included current federal and state income tax expense, as well as deferred federal and state income tax expense.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the condensed consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

With few exceptions, we are no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2011. We are not currently under examination by any taxing jurisdiction. In the event of any future tax assessments, we have elected to record the income taxes and any related interest and penalties as income tax expense on our statement of operations.

Note 9. Net Income (Loss) Per Share Attributable to Common Stockholders

We adopted ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” in the fourth quarter of 2016 on a retrospective basis, effective January 1, 2016. The following table sets forth the computation of our basic and diluted net income (loss) per share attributable to common stockholders and reflects the adoption of ASU 2016-09:

(In thousands, except share and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 3,787	\$ 988	\$ 2,283	\$ 8
Convertible preferred stock dividends	—	509	—	1,023
Allocation of undistributed earnings to preferred stockholders	—	302	—	—
Net income (loss) attributable to common stockholders	\$ 3,787	\$ 177	\$ 2,283	\$ (1,015)
Weighted-average shares outstanding	17,176,386	3,406,420	17,028,237	3,349,873
Effect of convertible preferred stock outstanding, restricted stock units, common stock options, warrants, and employee stock purchase plan shares	1,638,179	1,439,907	1,685,184	—
Weighted-average shares used to compute diluted net income (loss) per share	18,814,565	4,846,327	18,713,421	3,349,873
Net income (loss) per share - Basic	\$ 0.22	\$ 0.05	\$ 0.13	\$ (0.30)
Net income (loss) per share - Diluted	\$ 0.20	\$ 0.04	\$ 0.12	\$ (0.30)

The following common stock equivalents were excluded from the computation of diluted net income per share for the periods presented because including them would have been anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Convertible preferred stock outstanding	—	5,924,453	—	5,924,453
Restricted stock units	—	—	66,517	—
Common stock options	39,755	—	111,500	1,628,754
Employee stock purchase plan shares	49,021	—	49,021	—
Common stock warrants	—	—	1,122	5,800
Total	88,776	5,924,453	228,160	7,559,007

As of June 30, 2017, total common shares outstanding and the potentially dilutive shares totaled approximately 19.2 million shares.

Note 10. Fair Value Measurements

We determine the fair value of our assets and liabilities based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. We use a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1). The next highest priority is based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in non-active markets or other observable inputs (Level 2). The lowest priority is given to unobservable inputs (Level 3). The following provides information regarding fair value measurements for our cash equivalents and marketable securities as of June 30, 2017 and December 31, 2016 according to the three-level fair value hierarchy.

	Fair Value Measurements at June 30, 2017 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(In thousands)				
Recurring Fair Value Measurements:				
Currency	\$ 13	\$ —	\$ —	\$ 13
Money market mutual funds	9,021	—	—	9,021
U.S. government and agency obligations	2,006	10,964	—	12,970
Corporate debt securities and certificates of deposit	—	8,032	—	8,032
Total	<u>\$ 11,040</u>	<u>\$ 18,996</u>	<u>\$ —</u>	<u>\$ 30,036</u>

	Fair Value Measurements at December 31, 2016 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(In thousands)				
Recurring Fair Value Measurements:				
Currency	\$ 14	\$ —	\$ —	\$ 14
Money market mutual funds	18,976	—	—	18,976
U.S. government and agency obligations	2,017	6,979	—	8,996
Corporate debt securities and certificates of deposit	—	1,998	—	1,998
Total	<u>\$ 21,007</u>	<u>\$ 8,977</u>	<u>\$ —</u>	<u>\$ 29,984</u>

During the six months ended June 30, 2017 there were no transfers within the three-level hierarchy. A significant transfer is recognized when the inputs used to value a security have been changed, which merits a transfer between the disclosed levels of the valuation hierarchy.

The fair values for our currency, money market mutual funds, U.S. government and agency obligations and corporate debt securities are determined based on valuations provided by external investment managers who obtain them from a variety of industry standard data providers.

The carrying amounts of financial instruments such as cash equivalents, accounts receivable, other assets, accounts payable, accrued expenses and other liabilities approximate their related fair values due to the short-term maturities of these items. Non-financial assets, such as equipment and leasehold improvements, and intangible assets are subject to non-recurring fair value measurements if they are deemed impaired. We had no re-measurements of non-financial assets to fair value in the six months ended June 30, 2017.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this report.

Overview

We are a medical technology company that develops and provides innovative medical devices for the treatment of chronic diseases. Our mission is to help people suffering from chronic diseases live better and care for themselves at home. We focus our efforts on advancing the standard of care in treating chronic diseases in the home setting to improve patient outcomes and quality of life and help control rising healthcare expenditures. Our initial area of therapeutic focus is vascular disease, with a goal of advancing the standard of care in treating lymphedema and chronic venous insufficiency. We possess a unique, scalable platform to deliver at-home healthcare solutions throughout the United States. This evolving home care delivery model is recognized by policy-makers and insurance payers as a key for controlling rising healthcare costs. Our solutions deliver cost-effective, clinically proven, long-term treatment for patients with these chronic diseases.

Our proprietary products are the Flexitouch, Entre, and Actitouch systems. A predecessor to our Flexitouch system received 510(k) clearance from the U.S. Food and Drug Administration (the "FDA") in July 2002, and we introduced the system to address the many limitations of self-administered home-based manual lymphatic drainage therapy. We began selling our more advanced Flexitouch system after receiving 510(k) clearance from the FDA in October 2006. In September 2016, we received 510(k) clearance from the FDA for the Flexitouch system in treating lymphedema of the head and neck. We derive the vast majority of our revenues from our Flexitouch system. For the six months ended June 30, 2017 and 2016, sales of our Flexitouch system represented 91% and 86% of our revenues, respectively.

In September 2012, we acquired our second proprietary product, the Actitouch system. The system received 510(k) clearance from the FDA in June 2013, and we began selling the product in September 2013 to address the many limitations of multilayered bandages that are worn by patients suffering from venous leg ulcers. We also introduced our Entre system in the United States in February 2013. The Entre system is sold to patients who need a more basic pump or who do not yet qualify for insurance reimbursement for an advanced compression device such as our Flexitouch system. For the six months ended June 30, 2017 and 2016, sales of our Actitouch and Entre systems combined represented 9% and 14% of our revenues, respectively.

To support the growth of our business, we invest heavily in our commercial infrastructure, consisting of our direct sales force, home training resources, reimbursement capabilities and clinical expertise. We market our products in the United States using a direct-to-patient and -provider model. Our direct sales force has grown from three representatives in March 2005 to a team of over 145 people as of June 30, 2017. This model allows us to directly approach patients and clinicians, whereby we disintermediate the traditional durable medical equipment channel, allowing us to capture both the manufacturer and distributor margins. We also utilize over 400 licensed, independent healthcare practitioners as home trainers who educate patients on the proper use of our systems. We invest substantial resources in our reimbursement operations group of over 75 people that focuses on verifying case-by-case benefits, obtaining prior authorization, billing and collecting payments from payers, and providing customer support services. Our payer relations group of 25 people is responsible for developing relationships with insurance payer decision-makers to educate them on our product efficacy, develop overall payer coverage policies and reimbursement criteria, manage Medicare patient claims and contracts with payers, and serve as an advocacy liaison between patients, clinicians and payers throughout the appeals process. We also have a clinical team, consisting of a scientific advisory board, as well as in-house therapists and nurses, that serves as a resource to clinicians and patients and guides the development of clinical evidence in support of our products.

Our patients are reimbursed by government and private payers for the purchase of our products pursuant to established rates with each payer. We rely on third-party contract manufacturers for the sourcing of parts, the assembly of our controllers and the manufacturing of the garments used with our systems. We conduct final assembly of the garments used with our Flexitouch system, perform quality assurance, and ship our products from our facility in Minneapolis, Minnesota.

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For the three months ended June 30, 2017, we generated revenues of \$26.3 million and had net income of \$3.8 million, compared to revenues of \$19.7 million and net income of \$1.0 million for the three months ended June 30, 2016. For the six months ended June 30, 2017, we generated revenues of \$46.1 million and had net income of \$2.3 million, compared to revenues of \$33.4 million and net income of \$8,000 for the six months ended June 30, 2016. Our primary sources of capital to date have been from operating income, private placements of our capital stock, and capital raised in our initial public offering, which closed on August 2, 2016. We operate in one segment for financial reporting purposes.

Results of Operations

Comparison of the Three and Six Months Ended June 30, 2017 and 2016

The following table presents our results of operations for the periods indicated.

(In thousands, except percentages)	Three Months Ended June 30,				Change	
	2017		2016		\$	%
Condensed Consolidated Statement of Operations Data:						
		% of revenue		% of revenue		
Revenues	\$ 26,264	100 %	\$ 19,729	100 %	\$ 6,535	33 %
Cost of goods sold	7,034	27	5,324	27	1,710	32
Gross profit	19,230	73	14,405	73	4,825	33
Operating expenses						
Sales and marketing	10,645	41	7,598	39	3,047	40
Research and development	1,465	6	1,049	5	416	40
Reimbursement, general and administrative	6,390	23	3,966	20	2,424	61
Total operating expenses	18,500	70	12,613	64	5,887	47
Income from operations	730	3	1,792	9	(1,062)	(59)
Other income	64	—	5	—	59	N.M.
Income before income taxes	794	3	1,797	9	(1,003)	(56)
Income tax (benefit) expense	(2,993)	(11)	809	4	(3,802)	(470)
Net income	\$ 3,787	14	\$ 988	5	\$ 2,799	283
"N.M." - not meaningful						

(In thousands, except percentages)	Six Months Ended June 30,				Change	
	2017		2016		\$	%
Condensed Consolidated Statement of Operations Data:						
		% of revenue		% of revenue		
Revenues	\$ 46,114	100 %	\$ 33,429	100 %	\$ 12,685	38 %
Cost of goods sold	12,658	27	9,135	27	3,523	39
Gross profit	33,456	73	24,294	73	9,162	38
Operating expenses						
Sales and marketing	20,811	45	14,879	45	5,932	40
Research and development	2,583	6	2,029	6	554	27
Reimbursement, general and administrative	12,264	27	7,380	22	4,884	66
Total operating expenses	35,658	78	24,288	73	11,370	47
(Loss) income from operations	(2,202)	(5)	6	—	(2,208)	N.M.
Other income	119	—	10	—	109	N.M.
(Loss) income before income taxes	(2,083)	(5)	16	—	(2,099)	N.M.
Income tax (benefit) expense	(4,366)	(10)	8	—	(4,374)	N.M.
Net income	\$ 2,283	5	\$ 8	—	\$ 2,275	N.M.
"N.M." - not meaningful						

Revenues

Revenues increased \$6.5 million, or 33%, to \$26.3 million in the three months ended June 30, 2017, compared to \$19.7 million in the three months ended June 30, 2016. Revenues increased \$12.7 million, or 38%, to \$46.1 million in the six months ended June 30, 2017, compared to \$33.4 million in the six months ended June 30, 2016. The growth in revenues was attributable to an increase of approximately \$7.3 million, or 43%, in sales of our Flexitouch system for the three months ended June 30, 2017 and an increase of approximately \$13.1 million, or 46%, in sales of our Flexitouch system for the six months ended June 30, 2017. These increases in Flexitouch system sales were largely driven by expansion of our sales force and increased physician and patient awareness of the treatment options for lymphedema, as well as increased contractual coverage with national and regional insurance payers. The increases in sales of our Flexitouch system were partially offset by decreases of 28% and 9% in sales of our Actitouch and Entre systems in the three months and six months ended June 30, 2017 compared to the same periods in 2016, respectively.

Revenues from Medicare represented 9% and 11% of total revenues for the three months ended June 30, 2017 and 2016, respectively. Revenues from Medicare represented 10% and 12% of total revenues for the six months ended June 30, 2017 and 2016, respectively. Revenues from Veterans Administration hospitals represented 18% and 16% of total revenues for the three months ended June 30, 2017 and 2016, respectively. Revenues from Veterans Administration hospitals represented 18% and 17% of total revenues for the six months ended June 30, 2017 and 2016, respectively.

The following tables summarize our revenues by product for the three and six months ended June 30, 2017 and 2016, both in dollars and percentage of total revenues:

(In thousands, except percentages)	Three Months Ended June 30,		Change
	2017	2016	
Revenues			
Flexitouch system	\$ 24,208	\$ 16,892	43 %
Actitouch/Entre systems	2,056	2,837	(28)%
Total	<u>\$ 26,264</u>	<u>\$ 19,729</u>	33 %
Percentage of total revenues			
Flexitouch system	92 %	86 %	
Actitouch/Entre systems	8 %	14 %	
Total	<u>100 %</u>	<u>100 %</u>	

(In thousands, except percentages)	Six Months Ended June 30,		Change
	2017	2016	
Revenues			
Flexitouch system	\$ 41,734	\$ 28,601	46 %
Actitouch/Entre systems	4,380	4,828	(9)%
Total	<u>\$ 46,114</u>	<u>\$ 33,429</u>	38 %
Percentage of total revenues			
Flexitouch system	91 %	86 %	
Actitouch/Entre systems	9 %	14 %	
Total	<u>100 %</u>	<u>100 %</u>	

Our business is affected by seasonality. In the first quarter of each year, when most patients have started a new insurance year and have not yet met their annual out-of-pocket payment obligations, we experience substantially reduced demand for our products. We typically experience higher sales in the third and fourth quarters as a result of patients having paid their annual insurance deductibles in full, thereby reducing their out-of-pocket costs for our products, and because patients often spend the remaining balances in their flexible spending accounts at that time. This seasonality applies only to purchases of our products by patients covered by commercial insurance and is not relevant to Medicare, Medicaid, or Veterans Administration hospitals, as those payers do not have plans that include patient deductibles for purchases of our products.

Cost of Goods Sold and Gross Margin

Cost of goods sold increased \$1.7 million, or 32%, to \$7.0 million for the three months ended June 30, 2017, compared to \$5.3 million for the three months ended June 30, 2016. Cost of goods sold increased \$3.5 million, or 39%, to \$12.7 million for the six months ended June 30, 2017, compared to \$9.1 million for the six months ended June 30, 2016. The increase in cost of goods sold for each of the three months and six months ended June 30, 2017 compared to the same periods in 2016 was primarily attributable to an increase in the number of systems sold and additional manufacturing headcount to support increased volumes.

Gross margin was 73% for each of the three and six months ended June 30, 2017 and 2016.

Sales and Marketing Expenses

Sales and marketing expenses increased \$3.0 million, or 40%, to \$10.6 million for the three months ended June 30, 2017, compared to \$7.6 million for the three months ended June 30, 2016. This increase was largely driven by a \$1.1 million increase in personnel-related compensation expenses related to increased sales and marketing headcount, a \$0.3 million increase in variable sales compensation and \$0.3 million incremental stock-based compensation expense. In addition, other sales and marketing expenses increased \$1.2 million due to increased travel, consulting, recruitment and training expenses, as well as increased patient training costs.

Sales and marketing expenses increased \$5.9 million, or 40%, to \$20.8 million for the six months ended June 30, 2017, compared to \$14.9 million for the six months ended June 30, 2016. The increase was primarily driven by a \$1.8 million increase in personnel-related compensation expenses related to increased sales and marketing headcount, a \$1.1 million increase in variable sales compensation and \$0.6 million incremental stock-based compensation expense. In addition, sales and marketing expenses increased \$1.9 million due to increased travel, consulting, recruitment, and training expenses, as well as increased patient training costs.

Research and Development Expenses

Research and development (“R&D”) expenses increased \$0.4 million, or 40%, to \$1.5 million for the three months ended June 30, 2017, compared to \$1.0 million for the three months ended June 30, 2016. R&D expenses increased \$0.6 million, or 27%, to \$2.6 million for the six months ended June 30, 2017, compared to \$2.0 million for the six months ended June 30, 2016. The increase in R&D expenses for each of the three months and six months ended June 30, 2017 was primarily attributable to increases in product development and consulting costs.

Reimbursement, General and Administrative Expenses

Reimbursement, general and administrative expenses increased \$2.4 million, or 61%, to \$6.4 million for the three months ended June 30, 2017, compared to \$4.0 million for the three months ended June 30, 2016. This increase was primarily attributable to a \$0.9 million increase in personnel-related expenses resulting from increased headcount in our reimbursement operations, payer relations, and corporate functions, a \$0.7 million increase in stock-based compensation expense, and an increase of \$0.5 million in professional fees including legal, accounting and audit expenses associated with public company requirements.

Reimbursement, general and administrative expenses increased \$4.9 million, or 66%, to \$12.3 million for the six months ended June 30, 2017, compared to \$7.4 million for the six months ended June 30, 2016. The increase in reimbursement, general and administrative expenses for the six months ended June 30, 2017 was primarily attributable to a \$1.7 million increase in personnel-related expenses resulting from increased headcount in our reimbursement operations, payer relations, and corporate functions, a \$1.3 million increase in stock-based compensation expense, and an increase of \$1.3 million in professional fees including legal, accounting and audit expenses associated with public company requirements.

Other Income, Net

Other income was \$64,000 and \$5,000 for the three months ended June 30, 2017 and 2016, respectively, and \$119,000 and \$10,000 for the six months ended June 30, 2017 and 2016, respectively. The increase in other income was due to investment income earned on our invested capital derived from our initial public offering proceeds.

Income Taxes

We recorded an income tax benefit of \$3.0 million and income tax expense of \$0.8 million for the three months ended June 30, 2017 and 2016, respectively. The current period tax benefit was primarily due to a significant increase in tax benefits related to share-based compensation recognized in the current quarter as compared to the previous reporting period. Significant tax deductions included windfall benefits with respect to the vesting of restricted stock awards and restricted stock units, nonqualified stock options that were exercised and disqualifying dispositions of incentive stock options and ESPP shares.

We recorded an income tax benefit of \$4.4 million and income tax expense of \$8,000 for the six months ended June 30, 2017 and 2016, respectively. The current period tax benefit was primarily due to a significant increase in tax benefits related to tax-deductible share-based compensation activity as compared to the previous reporting period. This activity included vesting of restricted stock awards and restricted stock units, excess tax benefits associated with exercises of non-qualified stock options, and disqualifying dispositions of incentive stock options and ESPP shares.

Liquidity and Capital Resources**Cash Flows**

At June 30, 2017, our principal sources of liquidity were cash and cash equivalents of \$18.1 million, marketable securities of \$21.0 million and net accounts receivable of \$12.9 million.

The following table summarizes our cash flows for the periods indicated:

(In thousands)	Six Months Ended June 30,	
	2017	2016
Net cash (used in) provided by:		
Operating activities	\$ (3,015)	\$ 671
Investing activities	(11,733)	(318)
Financing activities	2,143	(694)
Net decrease in cash and cash equivalents	<u>\$ (12,605)</u>	<u>\$ (341)</u>

Net Cash (Used in) Provided by Operating Activities

Net cash used in operating activities during the six months ended June 30, 2017 was \$3.0 million. This use of cash was primarily due to a \$7.8 million increase in net operating assets and liabilities, driven by decreases in income taxes payable and payroll-related accruals and an increase in inventories, partially offset by net income of \$2.3 million and non-cash net income adjustments of \$2.5 million, including \$2.1 million of stock-based compensation expense.

Net cash provided by operating activities during the six months ended June 30, 2016 was \$0.7 million. This source of cash was primarily due to non-cash net income adjustments of \$0.9 million partially offset by a \$0.2 million increase in net operating assets and liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities during the six months ended June 30, 2017 was \$11.7 million, consisting primarily of \$10.0 million in net purchases of marketable securities and \$1.5 million in purchases of product tooling and computer and manufacturing equipment.

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Net cash used in investing activities during the six months ended June 30, 2016 was \$0.3 million, consisting primarily of purchases of product tooling and computer and manufacturing equipment.

Net Cash Provided by (Used in) Financing Activities

Net cash provided by financing activities during the six months ended June 30, 2017 was \$2.1 million, consisting of proceeds from the issuance of common stock under the ESPP of \$2.2 million and proceeds from exercises of common stock options and warrants of \$0.6 million, partially offset by the purchase of treasury stock to cover taxes from restricted stock award vesting of \$0.5 million and taxes paid for the net share settlement of stock-settled restricted stock units of \$0.2 million.

Net cash used in financing activities during the six months ended June 30, 2016 was \$0.7 million, consisting of \$0.9 million in expenses associated with our initial public offering, partially offset by \$0.2 million in proceeds from exercises of common stock options and warrants.

Credit Line

At December 31, 2016 we had a \$2.0 million line of credit with a bank that bore interest based on the prime rate. There was no outstanding balance on the line of credit as of December 31, 2016. The line of credit expired on May 11, 2017, and there was no outstanding balance on the line as of that date.

Adequacy of Capital Resources

Our future capital requirements may vary significantly from those now planned and will depend on many factors, including:

- sales and marketing resources needed to further penetrate our market;
- expansion of our operations domestically and/or internationally;
- response of competitors to our solutions and applications;
- costs associated with clinical research activities;
- costs to develop and implement new products; and
- use of capital for acquisitions, if any.

Historically, we have experienced increases in our expenditures consistent with the growth in our revenues, operations and personnel, and we anticipate that our expenditures will continue to increase as we expand our business.

We believe our cash, cash equivalents, marketable securities and any cash flows from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next twelve months. We expect continued increased expenses in connection with meeting our obligations as a public company.

Inflation and changing prices did not have a material effect on our business during the six months ended June 30, 2017, and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future.

Contractual and Commercial Commitments Summary

Our contractual obligations and commercial commitments as of June 30, 2017 are summarized below:

(In thousands)	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations ⁽¹⁾	\$ 3,400	\$ 904	\$ 1,583	\$ 913	\$ —
Future product royalties ⁽²⁾	34	34	—	—	—
Purchase commitments ⁽³⁾	8,060	8,060	—	—	—
Total	\$ 11,494	\$ 8,998	\$ 1,583	\$ 913	\$ —

- (1) We currently lease approximately 52,000 square feet of office space at our corporate headquarters in Minneapolis, Minnesota under a lease that expires in July 2021 and an additional 31,200 square feet of office, assembly and warehouse space at a second leased facility in Minneapolis, Minnesota under a lease that expires in November 2021. We also entered into a fleet vehicle lease program for certain members of our field sales organization in 2016. At June 30, 2017, we had 50 leased vehicles under this program.
- (2) We are required to make quarterly royalty payments to a third party for our Actitouch system revenue through August 2023. The payments are equal to 9% of our quarterly revenues attributable to our Actitouch system through August 2017, and for the remaining period, equal to 6% of our quarterly revenues attributable to our Actitouch system. In any year that these revenues exceed \$40.0 million, we are required to pay 7% on revenues over \$40.0 million and 6% on revenues \$40.0 million and under.
- (3) Represents purchase orders issued in January and May 2017 to vendors for inventory expected to be received in the remainder of 2017 and in 2018.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, investments in special purpose entities or undisclosed borrowings or debt. Additionally, we are not a party to any derivative contracts or synthetic leases.

Recent Accounting Pronouncements

Refer to Note 1 - "Nature of Operations and Basis of Presentation" of our condensed consolidated financial statements contained in this report for a description of recently issued accounting pronouncements that are applicable to our business.

JOBS Act

We are an "emerging growth company" as defined by the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of the extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this exemption and, as a result, our financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies. Section 107 of the JOBS Act provides that we can elect to opt out of the extended transition period at any time, which election is irrevocable.

Subject to certain conditions, as an emerging growth company, we are relying on certain of the exemptions and reduced reporting requirements of the JOBS Act, including without limitation, from providing an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 and from complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earliest of: (a) the last day of the fiscal year in which we have total annual gross revenues of \$1 billion or more; (b) the last day of 2021; (c) the date on which we have issued more than \$1 billion in nonconvertible debt during the previous three years; and (d) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Critical Accounting Policies and Estimates

A “critical accounting policy” is one that is both important to the portrayal of our financial condition and results and requires management’s most subjective or complex judgments, often as a result of the need to make estimates about the effect of items that are inherently uncertain. For additional information, please see the discussion of our significant accounting policies under “Critical Accounting Policies and Significant Estimates” in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We are exposed to market risk from changes in interest rates, primarily related to our investment activities. The principal objectives of our investment activities are to preserve principal, provide liquidity and maximize income consistent with minimizing risk of material loss. The recorded carrying amounts of cash and cash equivalents approximate fair value due to their short maturities. Our interest income is sensitive to changes in the general level of interest rates in the United States, particularly since our investments are generally short-term in nature. Based on the nature of our short-term investments, an immediate 100 basis point change in interest rates would not have a material effect on the fair market value of our portfolio.

Inflation

Inflationary factors, such as increases in our cost of goods sold, sales and marketing expenses and reimbursement expenses, may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial condition or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain and increase our gross margin, and on our sales and marketing and reimbursement expenses as a percentage of our revenues if the selling prices of our products do not increase as much or more than these increased costs.

Credit Risk

As of June 30, 2017 and December 31, 2016, our cash, cash equivalents and marketable securities were maintained with two financial institutions in the United States. We have reviewed the financial statements of these institutions and believe they have sufficient assets and liquidity to conduct their operations in the ordinary course of business with little or no credit risk to us.

Our accounts receivable primarily relate to revenues from the sale of our products to patients in the United States. For the six months ended June 30, 2017 and 2016, our accounts receivable were \$15.9 million and \$14.4 million, respectively. We had accounts receivable from three insurance companies representing approximately 26%, 17% and 5% of accounts receivable as of June 30, 2017, and we had accounts receivable from three insurance companies representing approximately 22%, 17% and 6% of accounts receivable as of June 30, 2016.

Foreign Currency Risk

Our business is conducted in U.S. dollars and international transactions have been minimal. As we begin building relationships to commercialize our products internationally, our results of operations and cash flows may become increasingly subject to changes in foreign exchange rates.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2017, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no material changes in our internal control over financial reporting during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be subject to various claims and legal proceedings arising in the ordinary course of business. We are not currently a party to any legal proceedings that, in the opinion of our management, are likely to have a material adverse effect on our business. Regardless of outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect our business, financial condition or future results. Except as set forth below, there have been no material changes in our risk factors from those disclosed in that report. The following risk factor is added:

Healthcare reform measures could hinder or prevent the commercial success of our products and product candidates.

In the United States, there have been, and we expect there will continue to be, a number of legislative and regulatory changes to the healthcare system that could affect our future revenues and profitability and the future revenues and profitability of our customers. Federal and state lawmakers regularly propose and, at times, enact legislation that results in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. The new presidential administration and U.S. Congress have sought, and we expect that they will continue to seek, to modify, repeal, or otherwise invalidate all, or certain provisions of, the Patient Protection and Affordable Care Act and Health Care Education Reconciliation Act (the “Affordable Care Act”). There is still uncertainty with respect to the impact that the current administration and legislative action may have, if any, and any changes will likely take time to unfold and could have an impact on coverage and reimbursement for healthcare items and services covered by plans that were authorized by the Affordable Care Act. Such uncertainty and any changes could negatively impact our ability to successfully commercialize our products or product candidates, and could result in reduced demand for our products and additional pricing pressures.

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

Recent Sales of Unregistered Securities

(a) *Issuances of Preferred Stock*

None.

(b) *Issuances of Common Stock*

None.

Use of Proceeds from Registered Securities

On August 2, 2016, we issued and sold 4,120,000 shares of our common stock in the initial public offering at a public offering price of \$10.00 per share, for aggregate gross proceeds of \$41.2 million. All of the shares issued and sold in the initial public offering were registered under the Securities Act pursuant to a Registration Statement on Form S-1 (File No. 333-209115), which was declared effective by the SEC on July 27, 2016. The offering terminated on August 2, 2016.

The net offering proceeds to us, after deducting underwriting discounts of approximately \$2.9 million and offering expenses paid by us totaling approximately \$2.9 million, were approximately \$35.4 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning 10.0% or more of any class of our equity securities or to any other affiliates. We also paid \$8.2 million in cumulative accrued dividends to our Series A preferred stockholders from the issuance proceeds.

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At June 30, 2017, the net proceeds from our initial public offering were held in a diversified portfolio of bank deposits, government money market funds, government securities (U.S. Treasury and U.S. government agency securities), and high-grade short-term corporate bonds. All investments were in compliance with our Investment Policy and are highly liquid, with liquidity and capital preservation being the primary investment objectives. There has been no material change in our planned uses of the net proceeds from those described in the Prospectus dated July 27, 2016.

Share Repurchases

The following table summarizes the purchases of common stock made by us during the three months ended June 30, 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly	Approximate Dollar Value of Shares that May Yet Be
			Announced Plans or Programs ⁽¹⁾	Purchased Under Plans or Programs ⁽¹⁾
April 2017	—	\$ —	—	\$ —
May 2017	26,087 ⁽²⁾	18.90 ⁽²⁾	—	—
June 2017	—	—	—	—
Total	26,087 ⁽²⁾	\$ 18.90 ⁽²⁾	—	\$ —

(1) We do not have any publicly announced share repurchase plans or programs.

(2) Represents shares of our common stock that were withheld to satisfy the tax withholding obligations of holders of 66,010 restricted stock awards in connection with the vesting of such awards.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which Exhibit Index is incorporated herein by reference.

SIGNATURES

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

Tactile Systems Technology, Inc.

Date: August 7, 2017

By: /s/ Lynn L. Blake
Lynn L. Blake
Chief Financial Officer
(Principal financial and accounting officer)

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Incorporated by Reference			Filed Herewith
		Form	File Number	Date of Filing	
3.1	Fourth Amended and Restated Certificate of Incorporation	S-1	333-209115	06/09/2016	3.1
3.2	Amended and Restated By-laws	S-1	333-209115	05/06/2016	3.2
10.1	Confidential Transition Agreement and Release, dated June 14, 2017, by and between Mary E. Anderson and Tactile Systems Technology, Inc.				X
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) / 15d-14(a) of the Securities Exchange Act of 1934, as amended				X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) / 15d-14(a) of the Securities Exchange Act of 1934, as amended				X
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.1	The following condensed consolidated financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, formatted in XBRL: (i) Balance Sheets (unaudited), (ii) Statements of Operations (unaudited), (iii) Statements of Comprehensive Income (Loss) (unaudited); (iv) Statements of Stockholders' Equity (Deficit) (unaudited), (v) Statements of Cash Flows (unaudited), and (vi) Notes to the Condensed Consolidated Financial Statements.				X

CONFIDENTIAL TRANSITION AGREEMENT AND RELEASE

This CONFIDENTIAL TRANSITION AGREEMENT AND RELEASE (the “Agreement”), dated June 14, 2017, is made by and between Mary E. Anderson (“Executive” or “Anderson”), and Tactile Systems Technology, Inc. d/b/a Tactile Medical (“Tactile” or the “Company”) (collectively, the “Parties”).

WHEREAS, the Executive has been employed by Tactile since September 1, 2005, most recently as its Vice President – Reimbursement; and

WHEREAS, the Executive is currently employed pursuant to the Employment Agreement dated June 18, 2016, attached hereto as Exhibit A; and

WHEREAS, the Executive has resigned her position effective July 1, 2017, to pursue other career goals; and

WHEREAS, the Company and Executive wish to provide for a smooth transition for both parties; and

WHEREAS, the Parties have agreed to enter into this Agreement to memorialize the terms and conditions of Executive’s separation from employment, Executive’s rights and obligations during a transition period, and to amicably resolve any disputes between them; and

WHEREAS, Executive and Company agree that the mutual promises set forth herein constitute valuable consideration.

NOW, THEREFORE, Executive and Company agree:

1. Anderson’s Resignation. Anderson submitted her written resignation of employment with the Company on May 16, 2017, which such resignation is effective July 1, 2017, and Company has accepted her resignation. Anderson has resigned her position as an executive officer of the Company, effective June 5, 2017, as her duties with the Company from and after such date shall not constitute those of an executive officer of the Company. Executive shall cooperate with any further requirements to resign her position as an executive officer of Tactile.
 2. Transition Period, Consulting and Other Benefits. Provided that Anderson signs and does not rescind this Agreement, and signs and does not rescind a separate Release in the form and at the times specified herein, Anderson and Company agree to the following terms:
 - a. Anderson is expected to devote her full time, attention and efforts to the business of the Company through May 26, 2017.
 - b. After May 26, 2017, Anderson shall thereafter perform the duties set forth herein, whether as an employee or independent contractor, from her home office, unless otherwise requested by the Company.
 - c. The Company agrees to supply Anderson with a laptop to use in providing the consulting work, which shall remain the property of the Company and be returned at the close of the consulting period.
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- d. The period from May 27, 2017 until December 31, 2017 shall be the Transition Period. Anderson will remain an employee from May 27, 2017 until July 1, 2017, and shall continue to receive her regular compensation and benefits through that period.
 - e. Provided that Anderson signs and does not rescind a Release in the form attached as Exhibit B, on or after July 1, 2017, Anderson shall be engaged by Company as consultant from July 2, 2017 through December 31, 2017. Anderson's consulting fee shall be \$7,000.00/week. The consulting fee shall be paid biweekly, with the exception of:
 - i. Any payments due during the rescission period for the Release executed by Anderson after July 1, 2017, shall be delayed until the close of the rescission period set forth therein. Provided that Anderson signs and does not rescind the separate Release, any such delayed payments shall be made within three (3) business days following the close of the rescission period. Should Anderson fail to execute the Release, Anderson shall not be entitled to any such amounts.
 - ii. Payment of consulting fees for December 2017 shall be contingent upon Anderson's execution of a Release in the form attached as Exhibit B, on or after December 31, 2017. Provided that Anderson signs and does not rescind the separate Release on or after December 31, 2017, the consulting fees shall be made within three (3) business days following the close of the rescission period. Should Anderson fail to execute the Release, Anderson shall not be entitled to any such amounts.
 - iii. The consulting fee will be paid on a 1099 basis. Anderson shall be liable for all expenses, taxes, and insurance, except as set forth herein.
 - f. During the Transition Period, Anderson shall provide up to 10 hours per week of consulting services, which shall include, but are not limited to, the following:
 - i. Assistance with Sarbanes-Oxley implementation;
 - ii. Month-end / quarter-end financial close support and training/transition as required, through July 1, 2017;
 - iii. Continuation of process improvement initiative around rental business
 - iv. Assistance in guiding customer refund/over-payment project, through July 1, 2017;
 - v. Assistance with process changes required for launch of next-generation Flexitouch products;
 - vi. Other transition assistance as required; and
 - vii. Company and Anderson agree that Anderson will not be intentionally provided with information that may convey insider status after July 1, 2017. Anderson shall inform Company if she believes that she may receive insider information in connection with the consulting services, and Company shall reasonably modify the request for consulting services to avoid the need to share such information. Anderson acknowledges that Company does not indemnify her for any liability she may incur based on her knowledge of insider information, whether such knowledge is acquired during or after the period of her employment.
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- g. Anderson and Company agree that she continues to be bound by the obligations set forth in Sections 5-9 of her Employment Agreement during the Transition Period and thereafter, as modified herein.
- h. Provided that Anderson signs and does not rescind the separate Release on or after July 1, 2017, and becomes eligible for, actually enrolls in, and provides proof of enrollment in Tactile's group medical and dental insurance as permitted by COBRA, Tactile shall pay Anderson's entire COBRA premium for medical and dental premiums at her current coverage level, through the earlier of (i) December 31, 2017; or (ii) the date upon which Anderson is no longer eligible for COBRA coverage. Anderson has been advised that if she wishes to secure health coverage on or off the health care exchange, under current law she must do so within 60 days of the Separation Date, or she may have to wait until the next open enrollment period.
- i. Provided that Anderson signs and does not rescind a Release on or after July 1, 2017 and complies with the other terms of this Agreement, including providing the consulting services provided herein, Anderson's equity awards shall be vested as to the following aggregate number of shares on July 1, 2017:
 - Stock Option grant issued February 26, 2008: fully vested
 - Stock Option grant issued June 5, 2009: fully vested
 - Stock Option grant issued March 9, 2010: fully vested
 - Stock Option grant issued April 21, 2011: fully vested
 - Stock Option grant issued October 14, 2013: 18,160 stock options vested
 - Restricted Stock Unit grant issued July 27, 2016: 6,413 restricted stock units vested
 - Restricted Stock Unit grant issued May 10, 2017: 434 restricted stock units vested

The preceding lists all equity awards currently held by Anderson. All equity awards issued to Anderson shall cease vesting on July 1, 2017 and shall terminate at that time as to any unvested portion of the awards, which shall be forfeited.

3. Mutual Release of Claims. In consideration of the benefits provided herein, Anderson, on behalf of herself, her agents, representatives, attorneys, assignees, heirs, executors, and administrators, covenants not to sue, releases and forever discharges the Company, and its past and present employees, agents, insurers, officials, officers, directors, divisions, parents, subsidiaries, predecessors and successors, and all affiliated entities and persons, and all of their respective past and present employees, agents, insurers, officials, officers, and directors (the "Released Parties") from any and all past and present claims and causes of action of any type, including any and all claims arising, or which may have arisen, out of or in connection with her employment or separation of her employment with the Company, to the extent permitted by law. Executive specifically intends that this Release includes, but is not limited to, any causes of actions or claims she may have arising out of or based upon the Federal Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e, et seq., the Age Discrimination in Employment Act of 1967, 29 U.S.C. § 623, et seq., as amended by the Older Workers Benefit Protection Act, the Americans with Disabilities Act, 42 U.S.C. § 12101, et seq., the Family and Medical Leave Act, the Occupational Safety and Health Act, the Minnesota Human Rights Act, Minnesota Statutes §363A.01 et seq., Minnesota Statutes Chapter 181, including Minnesota's whistleblower statute, the Minnesota Constitution,
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Minnesota common law, claims under any other federal, state or local statute, ordinance, regulation or order regarding employment, compensation for employment, termination of employment, or discrimination in employment, and the common law of any state. Executive understands and agrees that this discharge of claims extends to, but is not limited to, all claims which she may have as of the date of this Agreement against Tactile, based upon statutory or common law claims for defamation, libel, slander, assault, battery, negligent or intentional infliction of emotional distress, negligent hiring or retention, breach of contract, promissory estoppel, fraud, wrongful discharge, invasion of privacy, retaliation, whistleblowing, claims for bonuses or commissions, claims for unpaid wages, or claims based on any other theory, whether legal or equitable, and any and all claims for damages, attorneys' fees or costs, including all claims under the Employment Agreement. Executive acknowledges that this Release includes all claims she is legally permitted to release and as such does not apply to vested rights in any Tactile retirement plans, nor does it preclude her from exercising any Protected Government Rights, as described below in Section 4.

Anderson shall execute a separate Release in the form of Exhibit B after her last date of employment, as well as after the close of her consulting agreement, in order to effectuate her intent to release all claims with respect to her employment or other engagement with Tactile.

Company releases Anderson from any and all past and present claims and causes of action of any type through the date of this Agreement. Notwithstanding this Agreement, Anderson's obligations in Sections 5-9 of her Employment Agreement survive this Agreement.

4. Protected Government Rights. Nothing in this Agreement prohibits Anderson from reporting possible violations of federal or state law or regulation to the government, including but not limited to the EEOC, Department of Justice, Securities and Exchange Commission, Congress or any agency Inspector General, or filing a charge with or participating in any investigation or proceeding conducted by the EEOC or a comparable state or local agency (collectively, any such activity shall be referred to as a "Government Report"). Anderson does not need prior authorization of the Company to make a Government Report and is not required to notify the Company that she has made a Government Report. The restrictions in Sections 7-10 of this Agreement regarding confidentiality, non-disparagement, and cooperation do not apply in connection with a Government Report. Notwithstanding the provisions of this Section 4, Executive's release of claims in Section 3 above waives her right to recover any monetary damages or receive any relief in any charge, complaint, or lawsuit filed by Executive or anyone else on her behalf, including in connection with matter, including Government Report, but this Agreement does not limit Executive's right to receive a reward from the government for providing it information in connection with a Government Report.
 5. No Other Claims. Anderson warrants and represents that she has not filed or caused to be filed any lawsuits, complaints, charges or grievances of any type against the Company.
 6. Mutual Separation from Employment; No Wrongdoing. Anderson and Tactile agree that her separation from employment is the result of her voluntary resignation, which Tactile has accepted. The Parties mutually acknowledge and affirm that this Agreement and the consideration provided herein is not to be construed as an admission of any liability or wrongdoing on the part of either Party. Such liability is expressly denied by the Parties.
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7. Confidentiality. The Parties agree that the content of this Agreement and the events leading up to entry into this Agreement are strictly confidential. The only statement that either party may make regarding the past disputes between them is: "The matter was resolved to the parties' mutual satisfaction." Notwithstanding the previous sentence, the Parties may disclose the terms of the settlement to persons or entities with the need to know including but not limited to their spouses, attorneys, accountants, tax preparers and insurers as necessary in the normal course of business, or otherwise as required by law, including but not limited to required filings with the SEC.
 8. Mutual Non-Disparagement. Anderson agrees that she will not comment adversely about or disparage the Released Parties, including Tactile's agents, officers, directors or employees, in any way to any third party. Gerald Mattys, Lynn Blake, and Robert Folkes will not comment adversely about or disparage Anderson, in any way to any third party, nor will they instruct any other person to do so.
 9. Cooperation. Executive will cooperate with the Company and with any affiliate of the Company in any claims or lawsuits where Executive has knowledge of the facts. Executive further agrees that she will not voluntarily aid, assist, or cooperate with anyone who has claims against the Company or with their attorneys or agents in any claims or lawsuits that such person may bring. Nothing in this Agreement prevents Executive from testifying at an investigation, regulatory audit, administrative hearing, arbitration, deposition or in court in response to a lawful and properly served subpoena.
 10. Continuing Obligations; Confidential Information Learned During Employment; Noncompetition and Nonsolicitation. Anderson reaffirms her obligation to abide by the obligations set forth in Sections 5-9 of her Employment Agreement, which are expressly incorporated in the Confidential Settlement Agreement and survive the termination of her employment and this Agreement, as modified herein:
 - a. To the extent that the obligations set forth in Sections 5-9 of the Employment Agreement refer to Anderson's "employment," that term shall include the transition period generally, including the duration of the consulting agreement.
 - b. The covenants set forth in Section 7 of the Employment Agreement shall continue during the transition period, and the Restricted Period and other post-employment obligations shall continue for a period of twelve (12) months following the close of the transition period, i.e., through December 31, 2018.
 - c. Executive shall return all of the Company's property in her possession, including without limitation, information (whether electronic or hard copy), security cards, credit cards, phone cards, laptop computer, computer manuals, keys, documents, business equipment, computer software, disks and media, policy and procedure manuals and any other documents or materials pertaining to any matter Executive worked on for the Company by May 26, 2017, except for the laptop computer which Tactile shall provide to Executive for use during the transition period. Thereafter, Tactile will provide Executive with any property necessary to execute the consulting services, which Executive shall return upon the conclusion of the transition period, or Tactile's request, if sooner.
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- d. Anderson shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state or local government, or to an attorney, and is made solely for the purpose of reporting or investigating a suspected violation of law. The same immunity will be provided for the disclosure of a trade secret that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.
11. Severability, Merger, Modification and Counterparts. If any clause of this Agreement is found to be invalid, it shall not affect the validity of any other provisions of this Agreement. Except as provided herein, this Agreement supersedes and replaces all prior oral and written agreements, understandings, and representations between Executive and Tactile or their respective representatives. Notwithstanding this paragraph, Executive's obligations under the Employee Agreement shall continue as set forth and/or modified herein. This Agreement may only be modified by a subsequent written agreement signed by both parties. Further, this Agreement may be executed in counterparts, and each shall be binding and of the same legal effect as an original. Moreover, the parties agree that a fax or .pdf signature on any counterpart shall be of the same binding legal effect as a signed original.
12. Miscellaneous. The terms provided in Section 12 of the Employment Agreement shall survive and are hereby incorporated into this Agreement, except to the extent that they conflict with more specific terms as set forth herein.
13. Notification of Release and Right to Rescind. **This Agreement contains a release of certain legal rights which Anderson may have including under the Age Discrimination in Employment Act and the Minnesota Human Rights Act.** Anderson has been given twenty-one (21) days within which to consider this agreement. Anderson should consult with an attorney regarding such release and other aspects of this Agreement before signing this Agreement. Anderson understands that she may nullify and rescind this entire Agreement at any time within fifteen (15) days from the date of her signature below by indicating her desire to do so in writing and delivering that writing to **Gerald Mattys, 1331 Tyler St. NE, Suite 200, Minneapolis, MN 55413**, by hand or by certified mail, return receipt requested. If Anderson fails to properly deliver or mail such written rescission as instructed, the rescission shall not be effective. Anderson further understands that if she rescinds this Agreement on a timely basis, Tactile will not be bound by the terms of this Agreement, and, in such event, Anderson will have no right to receive or retain the compensation or benefits conferred under this Agreement, but that rescission of this Agreement shall not be effective to rescind her voluntary resignation.
14. Executive Understands the Terms of this Agreement. Other than stated herein, Executive warrants that (a) no promise or inducement has been offered for this Agreement; (b) this Agreement is executed without reliance upon any statement or representation of Tactile or its representatives concerning the nature and extent of any claims or liability therefor, if any; (c) Executive is legally competent to execute this Agreement and accepts full responsibility therefor; (d) Executive has been represented by and consulted with counsel of her choice with
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respect to this Agreement; (e) Tactile has allowed Executive twenty-one (21) days within which to consider this proposed Agreement; and (f) Executive fully understands this Agreement and has been advised by counsel of the consequences of signing this Agreement. The parties acknowledge and agree that if Executive has not signed this proposed Agreement and returned it to **Gerald Mattys, 1331 Tyler St. NE, Suite 200, Minneapolis, MN 55413** within twenty-one (21) days (specifically, no later than the end of business on June 16, 2017), then the offer of this Agreement shall expire by its own terms and be of no further force or effect without any further action required on the part of Tactile.

AGREED:

TACTILE MEDICAL

/s/ Mary E. Anderson

Mary E. Anderson

/s/ Gerald Mattys

Gerald Mattys, CEO

EXHIBIT A

TACTILE SYSTEMS TECHNOLOGY, INC. Employment Agreement

This Employment Agreement (this "*Agreement*") is entered into effective June 8, 2016 (the "*Effective Date*") by and between **Tactile Systems Technology, Inc.**, a Delaware corporation (the "*Company*"), and **Mary Anderson**, a resident of Minnesota ("*Executive*").

Background

A. The Company and Executive have been parties to an Employment Agreement, dated [] (the "*Prior Agreement*").

B. The Company desires to employ Executive on the terms and conditions set forth in this Agreement.

C. The Executive desires to be employed by the Company on the terms and conditions set forth in this Agreement.

D. This Agreement shall govern the employment relationship between the Executive and the Company from and after the Effective Date hereof, and supersedes and negates any previous agreements or understandings, whether written or oral, with respect to such relationship, including without limitation the Prior Agreement.

Agreement

In consideration of the foregoing premises and the respective agreements of the Company and Executive set forth below, the Company and Executive, intending to be legally bound, agree as follows:

1. Employment. The term of Executive's employment under this Agreement shall commence as of the Effective Date and continue until terminated in accordance with Section 10 hereof (the "*Term*").

2. Position and Duties.

(a) Position with the Company. During the Term, Executive will serve as the Company's **Vice President, Reimbursement** and will perform such duties and responsibilities as the Company's Chief Executive Officer will assign to Executive from time to time.

(b) Performance of Duties and Responsibilities. Executive will serve the Company faithfully and to the best of Executive's ability and will devote Executive's full time, attention and efforts to the business of the Company during Executive's employment with the Company. Executive will report to the Company's Chief Executive Officer or such other individual or individuals designated by the Chief Executive Officer. During Executive's employment hereunder, Executive will not accept other employment or engage in other material business activity, except as approved in writing by the Company's Board of Directors (the "*Board*").

3. Compensation. While Executive is employed by the Company during the Term, and in exchange for Executive fulfilling Executive's duties and responsibilities as set forth in this Agreement, the Company will provide Executive the compensation and benefits set forth in this Section 3.

(a) Base Salary. The Company will pay to Executive an annual base salary of **\$237,000**, less deductions and withholdings, which base salary will be paid in accordance with the Company's normal payroll policies and procedures. During each year after the first year of Executive's employment hereunder, the Compensation Committee of the Board (the "*Committee*") may review and increase Executive's base salary in its sole discretion.

(b) Bonus. For each calendar year Executive is employed by the Company, Executive shall be eligible for an annual target bonus in an amount of **35%** of Executive's base salary earned during such calendar year, based upon and subject to criteria set by the Committee from time to time. In order to earn and receive payment of an annual bonus, Executive must be an employee of the Company on the date the bonus is paid by the Company, provided, however, that if Executive's employment is terminated by the Company other than for Cause (as herein defined) or by Executive for Good Reason (as herein defined) and the Termination Date (as defined herein) is after the completion of a calendar year but before the annual bonus for such calendar year has been paid to Executive, then Executive will earn and receive payment of an annual bonus for such prior calendar year in accordance with the bonus plan in effect for such year. In any case, any annual bonus earned under this Section 3(b) will be paid not later than March 15 immediately following the calendar year to which the bonus relates.

(c) Equity Awards. During the Term, Executive shall be eligible to receive one or more equity-based incentive awards at the discretion of the Committee. The terms of such awards, if any, shall be determined in the sole discretion of the Committee, including the types of awards, the number of securities covered by each award, the vesting conditions applicable to each award, and the manner in which awards are to be paid or settled. Nothing herein shall obligate the Company to make an equity award to Executive at any time.

(d) Employee Benefits. Executive shall be entitled to participate in all employee benefit plans and programs of the Company to the extent that Executive meets the eligibility requirements for each individual plan or program. The Company provides no assurance as to the adoption or continuance of any particular employee benefit plan or program, and Executive's participation in any such plan or program will be subject to the provisions, rules and regulations applicable thereto.

(e) Expenses. The Company will reimburse Executive for all reasonable and necessary out-of-pocket business, travel and entertainment expenses incurred by Executive in the performance of the duties and responsibilities hereunder, subject to the Company's normal policies and procedures for expense verification and documentation.

(f) Paid Time Off. Executive shall be entitled to paid time off ("*PTO*") of 27 days per year. PTO days shall be taken at such times so as not to disrupt the operations of the Company, as approved by the Company's Chief Executive Officer. Any accrued and unused PTO upon termination of employment will not be paid out pursuant to the Company's standard policies addressing PTO.

4. Affiliated Entities. As used in this Agreement, “*Affiliates*” includes the Company and each corporation, partnership, or other entity which controls the Company, is controlled by the Company, or is under common control with the Company (in each case “*control*” meaning the direct or indirect ownership of 50% or more of all outstanding equity interests).

5. Confidential Information. Except as permitted by the Company, Executive will not at any time divulge, furnish or make accessible to anyone or use in any way other than in the ordinary course of the business of the Company or its Affiliates, any confidential, proprietary or secret knowledge or information of the Company or its Affiliates that Executive has acquired or will acquire about the Company or its Affiliates, whether developed by Executive or by others, concerning (i) any trade secrets, (ii) any confidential, proprietary or secret designs, programs, processes, formulae, plans, devices or material (whether or not patented or patentable) directly or indirectly useful in any aspect of the business of the Company or of its Affiliates, (iii) any customer or supplier lists, (iv) any confidential, proprietary or secret development or research work, (v) any strategic or other business, marketing or sales plans, (vi) any financial data or plans, or (viii) any other confidential or proprietary information or secret aspects of the business of the Company or of its Affiliates. Executive acknowledges that the above-described knowledge and information constitutes a unique and valuable asset of the Company and represents a substantial investment of time and expense by the Company, and that any disclosure or other use of such knowledge or information other than for the sole benefit of the Company or its Affiliates would be wrongful and would cause irreparable harm to the Company. Executive will refrain from intentionally committing any acts that would materially reduce the value of such knowledge or information to the Company or its Affiliates. The foregoing obligations of confidentiality shall not apply to any knowledge or information that (i) is now or subsequently becomes generally publicly known, other than as a direct or indirect result of the breach of this Agreement, (ii) is independently made available to Executive in good faith by a third party who has not violated a confidential relationship with the Company or its Affiliates, or (iii) is required to be disclosed by law or legal process. Executive understands and agrees that Executive’s obligations under this Agreement to maintain the confidentiality of the Company’s confidential information are in addition to any obligations of Executive under applicable statutory or common law.

6. Ventures. If, during Executive’s employment with the Company, Executive is engaged in or provides input into the planning or implementing of any project, program or venture involving the Company, all rights in such project, program or venture belong to the Company. Except as approved in writing by the Board, Executive will not be entitled to any interest in any such project, program or venture or to any commission, finder’s fee or other compensation in connection therewith. Executive will have no interest, direct or indirect, in any customer or supplier that conducts business with the Company.

7. Noncompetition and Nonsolicitation Covenants.

(a) Agreement Not to Compete. During the Restricted Period (defined below), Executive will not, directly or indirectly, engage in any business, in the United States or in any other location in which the Company is then doing business, for the development, sale, service, or distribution of medical devices to treat lymphedema patients or any other business that is competitive with the then-current businesses of the Company or its Affiliates, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, consultant or otherwise. Ownership by Executive, as a passive investment, of less than 2.5% of the outstanding shares of capital stock of any corporation listed on a national securities exchange or

publicly traded in the over-the-counter market shall not constitute a breach of this Section 7(a). Notwithstanding the foregoing, Executive's direct or indirect engagement in a business whose sole purpose is the development, sale, service, or distribution of compression garments (but not pumps or other devices) to treat lymphedema patients or other patients shall not constitute a breach of this Section 7(a).

(b) Agreement Not to Solicit or Hire Employees or Contractors. During Executive's employment with the Company or any Affiliates and for a period of twelve (12) consecutive months from and after the termination of Executive's employment, whether such termination is with or without cause, or whether such termination is at the instance of Executive or the Company, Executive will not, directly or indirectly, solicit, hire or engage any person who is then an employee or contractor of the Company or who was an employee of the Company at any time during the six (6) month period immediately preceding Executive's termination of employment, in any manner or capacity, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, consultant or otherwise, or otherwise directly or indirectly request, advise or induce any then current employee or contractor of the Company to terminate or otherwise adversely change its relationship with the Company.

(c) Agreement Not to Solicit Others. During Executive's employment with the Company or any Affiliates and for a period of twelve (12) consecutive months from and after the termination of Executive's employment, whether such termination is with or without cause, or whether such termination is at the instance of Executive or the Company, Executive will not, directly or indirectly, solicit, request, advise or induce any then current customer, supplier or other business contact of the Company to cancel, curtail or otherwise adversely change its relationship with the Company, in any manner or capacity, including without limitation as a proprietor, principal, agent, partner, officer, director, stockholder, employee, member of any association, consultant or otherwise.

(d) Restricted Period. For purposes of this Agreement "*Restricted Period*" is defined as follows.

- (i) If (x) Executive's employment is terminated by the Company without Cause (defined below) or by Executive for Good Reason (defined below), *and* (y) Executive signs a release of claims as provided for in Section 11(g), then the Restricted Period shall be the period during Executive's employment with the Company or any Affiliates and for a period of **nine (9)** consecutive months from and after the termination of Executive's employment; provided that the Company may in its sole discretion elect to extend the Restricted Period by an additional six (6) months by providing Executive at least thirty (30) days' notice of such extension and the payments and reimbursements provided for in Section 11(a)(iii) of this Agreement.
- (ii) If Executive's employment is terminated by the Company or by Executive under any conditions other than as provided for in Section 7(d)(i), then the Restricted Period shall be the period during Executive's employment with the Company or any Affiliates and for a period of twelve (12) consecutive months from and after the termination of Executive's employment.

(e) Acknowledgment. Executive hereby acknowledges that the provisions of this Section 7 are reasonable and necessary to protect the legitimate interests of the Company and that any

violation of this Section 7 by Executive will cause substantial and irreparable harm to the Company to such an extent that monetary damages alone would be an inadequate remedy therefor. Executive represents and warrants that Executive is not subject to any other agreements prohibiting the performance of Executive's obligations under this Agreement, including any non-competition agreement.

(f) Blue Pencil Doctrine. If the duration of, the scope of or any business activity covered by any provision of this Section 7 is in excess of what is determined to be valid and enforceable under applicable law, such provision will be construed to cover only that duration, scope or activity that is determined to be valid and enforceable. Executive hereby acknowledges that this Section 7 will be given the construction which renders its provisions valid and enforceable to the maximum extent, not exceeding its express terms, possible under applicable law.

8. Patents, Copyrights and Related Matters.

(a) Disclosure and Assignment. Executive must immediately disclose to the Company any and all improvements and inventions that Executive may conceive and/or reduce to practice individually or jointly or commonly with others while Executive is employed with the Company or any of its Affiliates with respect to (i) any methods, processes or apparatus concerned with the development, use or production of any type of products, goods or services sold or used by the Company or its Affiliates, and (ii) any type of products, goods or services sold or used by the Company or its Affiliates. Any such improvements and inventions will be the sole and exclusive property of the Company and Executive hereby immediately assigns, transfers and sets over to the Company Executive's entire right, title and interest in and to any and all of such improvement and inventions as are specified in this Section 8(a), and in and to any and all applications for letters patent that may be filed on such inventions, and in and to any and all letters patent that may issue, or be issued, upon such applications. In connection therewith and for no additional compensation therefor, but at no expense to Executive, Executive will sign any and all instruments deemed necessary by the Company for:

- (i) the filing and prosecution of any applications for letters patent of the United States or of any foreign country that the Company may desire to file upon such inventions as are specified in this Section 8(a);
- (ii) the filing and prosecution of any divisional, continuation, continuation-in-part or reissue applications that the Company may desire to file upon such applications for letters patent; and
- (iii) the reviving, re-examining or renewing of any of such applications for letters patent.

This Section 8(a) will not apply to any invention for which no equipment, supplies, facilities, confidential, proprietary or secret knowledge or information, or other trade secret information of the Company was used and that was developed entirely on Executive's own time, and (i) that does not relate (A) directly to the business of the Company, or (B) to the Company's actual or demonstrably anticipated research or development, or (ii) that does not result from any work performed by Executive for the Company.

(b) Copyrightable Material. All right, title and interest in all copyrightable material that Executive shall conceive or originate individually or jointly or commonly with others, and that arise

in connection with Executive's services hereunder or knowledge of confidential and proprietary information of the Company, will be the property of the Company and are hereby assigned by Executive to the Company of its Affiliates, along with ownership of any and all copyrights in the copyrightable material. Where applicable, works of authorship created by Executive relating to the Company or its Affiliates and arising out of Executive's knowledge of confidential and proprietary information of the Company shall be considered "works made for hire," as defined in the U.S. Copyright Act, as amended.

(c) Remedies. Executive acknowledges that it would be difficult to fully compensate the Company for monetary damages resulting from any breach by Executive of this Section 8. Accordingly, in the event of any actual or threatened breach of any such provisions, the Company will, in addition to any other remedies it may have, be entitled to injunctive and other equitable relief to enforce such provisions, and such relief may be granted without the necessity of proving actual monetary damages.

9. Return of Records and Property. Upon termination of Executive's employment or at any time upon the Company's request, Executive will promptly deliver to the Company any and all Company and Affiliate records and any and all Company and Affiliate property in Executive's possession or under Executive's control, including without limitation manuals, books, blank forms, documents, letters, memoranda, notes, notebooks, reports, printouts, computer disks, computer tapes, source codes, data, tables or calculations and all copies thereof, documents that in whole or in part contain any trade secrets or confidential, proprietary or other secret information of the Company or its Affiliates and all copies thereof, and keys, access cards, access codes, passwords, credit cards, personal computers, telephones and other electronic equipment belonging to the Company or its Affiliates.

10. Termination of Employment.

- (a) Executive's employment with the Company will terminate immediately upon:
- (i) Executive's receipt of written notice from the Company of the termination of Executive's employment, effective as of the date indicated in such notice;
 - (ii) the Company's receipt of Executive's written resignation from the Company, effective as of the date indicated in such resignation;
 - (iii) Executive's Disability (as defined below); or
 - (iv) Executive's death.

(b) The date upon which Executive's termination of employment with the Company occurs is the "*Termination Date.*" For purposes of Section 11(a) of this Agreement only, the Termination Date shall mean the date on which a "separation from service" has occurred for purposes of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and guidance thereunder (the "*Code.*")

(c) Immediately upon termination of Executive's employment with the Company for any reason, Executive shall resign all positions then held as an Executive of the Company and any Affiliates of the Company.

(d) Following termination of Executive's employment with the Company for any reason, Executive shall cooperate with the Company in the transition of Executive's duties and responsibilities hereunder to the extent reasonably requested by the Board; provided that Executive will be fairly compensated to the extent such cooperation requires more than an incidental amount of time and effort on Executive's part, and further that Executive will not be required to incur any out-of-pocket expenses in doing so.

11. Payments upon Termination of Employment.

(a) Subject to Section 11(g) of this Agreement, if Executive's employment with the Company is terminated by the Company without Cause or by Executive for Good Reason, then, in addition to paying Executive's earned and accrued base salary, accrued but unpaid expense reimbursements and benefits through the Termination Date, the Company will provide to Executive the following payments:

- (i) Separation Pay. The Company will pay to Executive an amount equal to Executive's then current base salary for a period of **nine (9)** months plus an amount equal to **75%** of Executive's then current target bonus, with such sum, less applicable withholdings, payable in equal installments in accordance with the Company's regular payroll schedule commencing with the first normal payroll date of the Company following the Termination Date and continuing for **nine (9)** months thereafter, provided that any installments that would have been paid during the sixty (60) day period immediately following the Termination Date shall be held by the Company until the first payroll date occurring more than sixty (60) days after the Termination Date.
 - (ii) Value of Accrued and Unused PTO. The Company will pay to Executive the value of Executive's accrued and unused PTO as of the Termination Date (based on Executive's base salary as of the Termination Date), less applicable withholdings, payable in a lump sum on the Company's first payroll date occurring more than sixty (60) days after the Termination Date.
 - (iii) Continued Benefits. If Executive is eligible for and takes all steps necessary to continue Executive's group health insurance coverage with the Company following the Termination Date, the Company will pay for the portion of the premium costs for such coverage that the Company would pay if Executive remained employed by the Company, at the same level of coverage that was in effect as of the Termination Date, for a period of **nine (9)** consecutive months after the Termination Date (or until Executive receives group health or dental coverage from another employer, if earlier).
 - (iv) Restricted Period Extension Payments. If the Company elects to extend the Restricted Period for six (6) additional months as provided for in Section 7(d)(i), then the Company will (A) pay to Executive an amount equal to the monthly amount payable to Executive under Section 11(a)(i), with such additional amounts payable to Executive in installments in accordance with the Company's regular payroll schedule commencing on the first normal payroll date of the Company following the nine (9) month anniversary of the Termination Date and continuing for six (6) months thereafter, and (B) extend
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for six (6) additional months (after the end of the nine (9) month period identified in Section 11(a)(iii)) the period during which it will pay a portion of the premium costs for group health insurance coverage as provided in, and subject to the same conditions of, Section 11(a)(iii).

- (v) Accelerated Vesting of Equity. In addition to the payments identified above in Sections 11(a)(i)-(iv), if Executive's employment with the Company is terminated by the Company without Cause or by Executive for Good Reason, then, subject to Section 11(g) of this Agreement and notwithstanding any language in any equity plan or applicable equity award agreement to the contrary, upon the expiration of the all rescission periods provided by law with respect to the release of claims described in Section 11(g), any equity awards issued to Executive that have any portion of such award unvested as of the Termination Date (each an "Award") will vest as to the number of shares, options or other securities (the "Securities") calculated as follows (rounded up to the nearest whole share):

$$\text{Additional Securities Vested} = (\text{Number of Securities Issued Under Award} \times ((\text{Number of Days between Date of Grant of Award and Termination Date}) / (\text{Number of Days between Date of Grant of Award and Final Vesting Date of Award}))) - \text{Number of Securities Vested Under Award as of the Termination Date.}$$

(b) If Executive's employment with the Company is terminated for any of the following reasons:

- (i) Executive's abandonment of Executive's employment or Executive's resignation for any reason other than Good Reason;
- (ii) termination of Executive's employment by the Company for Cause; or
- (iii) Executive's death or Disability.

then the Company will pay Executive or Executive's estate, as the case may be, Executive's earned and accrued base salary, accrued but unpaid expense reimbursements and benefits through the Termination Date.

(c) "Cause" hereunder means:

- (i) an act or acts of dishonesty undertaken by Executive and intended to result in personal gain or enrichment of Executive or others at the expense of the Company;
 - (ii) unlawful conduct or gross misconduct by Executive that, in either event, is injurious to the Company;
 - (iii) the conviction of Executive of a felony; or
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- (iv) material breach of any terms or conditions of this Agreement by Executive which breach has not been cured by Executive within 15 days after written notice thereof to Executive from the Company.

For the purposes of Sections 11(c)(ii) and (iv), no act or failure to act on Executive's part shall be considered "Cause" if done by Executive pursuant to specific authorization evidenced by a resolution duly adopted by the Board or pursuant to specific advice given by counsel for the Company, unless such specific authorization or advice results in whole or in part from material misrepresentations or omissions of Executive.

(d) "*Disability*" hereunder means the inability of Executive to perform on a full-time basis the duties and responsibilities of Executive's employment with the Company by reason of Executive's illness or other physical or mental impairment or condition, if such inability continues for an uninterrupted period of 90 days or more during any 180-day period. A period of inability is "uninterrupted" unless and until Executive returns to full-time work for a continuous period of at least 30 days.

(e) "*Good Reason*" hereunder means the occurrence of any of the following events without Executive's consent:

- (i) the assignment of Executive to a position with responsibilities or duties of a materially lesser status or degree than the position specified in Section 2(a);
- (ii) material breach of any terms or conditions of this Agreement by the Company not caused by Executive;
- (iii) the requirement by the Company that Executive relocate out of the Minneapolis/St. Paul Metropolitan area.

For the purposes of Section 11(e), "Good Reason" shall not exist unless Executive has first provided written notice to the Company of the occurrence of one or more of the conditions under clauses (i) through (iii) above within ninety (90) days of the condition's initial occurrence, such condition is not fully remedied by the Company within thirty (30) days after the Company's receipt of written notice from Executive, and the Termination Date occurs no later than one hundred and thirty (130) days after the condition's initial occurrence.

(f) In the event of termination of Executive's employment, the sole obligation of the Company to pay post-termination severance and benefits under this Agreement will be its obligation to make the payments called for by Sections 11(a) or 11(b) hereof, as the case may be, and the Company will have no other obligation to Executive, except as otherwise provided by law, under the terms of any other applicable agreement between Executive and the Company or under the terms of any employee benefit plans or programs then maintained by the Company in which Executive participates.

(g) Notwithstanding the foregoing provisions of this Section 11, the Company will not be obligated to make any payments under Section 11(a) hereof unless Executive has signed a release of claims in favor of the Company and its Affiliates in a form to be prescribed by the Company, all applicable consideration and rescission periods provided by law shall have expired, and Executive is in strict compliance with the terms of this Agreement as of the dates of such payments.

12. Miscellaneous.

(a) Governing Law. All matters relating to the interpretation, construction, application, validity and enforcement of this Agreement will be governed by the laws of the State of Minnesota without giving effect to any choice or conflict of law provision or rule, whether of the State of Minnesota or any other jurisdiction, that would cause the application of laws of any jurisdiction other than the State of Minnesota.

(b) Jurisdiction and Venue. Executive and the Company consent to jurisdiction of the courts of the State of Minnesota and/or the federal courts, District of Minnesota, for the purpose of resolving all issues of law, equity, or fact, arising out of or in connection with this Agreement. Any action involving claims of a breach of this Agreement must be brought in such courts. Each party consents to personal jurisdiction over such party in the state and/or federal courts of Minnesota and hereby waives any defense of lack of personal jurisdiction. Venue, for the purpose of all such suits, will be in Hennepin County, State of Minnesota.

(c) Entire Agreement. This Agreement contains the entire agreement of the parties relating to Executive's employment with the Company and supersedes all prior agreements and understandings with respect to such subject matter, including without limitation the Prior Agreement, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement that are not set forth herein; provided, however, that nothing in this Agreement is intended to supersede, replace or modify the terms of the Company's 2016 Equity Incentive Plan or any equity award agreements issued to Executive under the Company's 2016 Equity Incentive Plan, each of which shall remain in full force and effect in accordance with their terms.

(d) Code Section 409A. This Agreement is intended to be exempt from or comply with the requirements of Section 409A(a)(2), (3) and (4) of the Code, including current and future guidance and regulations interpreting such provisions, and should be interpreted accordingly. To the extent such potential payments or benefits could become subject to additional tax under such Code Section 409A, the parties shall cooperate to amend this Agreement with the goal of giving Executive the economic benefits described herein in a manner that does not result in such tax being imposed. Each payment or benefit made pursuant to Section 11(a) of this Agreement shall be deemed to be a separate payment for purposes of Code Section 409A. In addition, payments or benefits pursuant to Section 11(a) shall be exempt from the requirements of Code Section 409A to the maximum extent possible as "short-term deferrals" pursuant to Treasury Regulation Section 1.409A-1(b)(4), as involuntary separation pay pursuant to Treasury Regulation Section 1.409A-1(b)(9)(iii), and/or under any other exemption that may be applicable, and this Agreement shall be construed accordingly. To the extent that any amounts payable under this Agreement are required to be delayed under Code Section 409A, such amounts are intended to be and should be considered for purposes of Code Section 409A as separate payments from the amounts that are not required to be delayed. Notwithstanding anything herein to the contrary, if Executive is considered a "specified employee" (as defined in Treasury Regulation Section 1.409A-1(i)) as of the Termination Date, then no payments of deferred compensation subject to Code Section 409A and payable due to Executive's separation from service shall be made under this Agreement before the first business day that is six (6) months after the Termination Date (or upon Executive's death, if earlier) (the "*Specified Period*"). Any deferred compensation payments that would otherwise be required to be made to Executive during the Specified Period will be accumulated by the Company and paid to Executive on the first day after the end of the Specified Period. The foregoing restriction on the payment of amounts to Executive during

the Specified Period will not apply to the payment of employment taxes. In the event that the interpretation or requirements of Code Section 409A change during the Term, the parties agree to amend this Agreement, only as necessary, to comply with any such change, if and to the extent such an amendment is permitted by Code Section 409A.

(e) Code Section 280G. Notwithstanding anything in this Agreement to the contrary, if any payment or other benefit hereunder, together with any other payments or benefits that Executive has the right to receive from the Company or any corporation which is a member of an “affiliated group” (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a “parachute payment” (as defined in Section 280G(b)(2) of the Code), then, such payments and benefits will be reduced to the largest amount as, in the sole judgment of the Company, will result in no portion of such payments or benefits being subject to the excise tax imposed by Section 4999 of the Code.

(f) Amendments. No amendment or modification of this Agreement will be deemed effective unless made in writing and signed by the parties hereto.

(g) No Waiver. No term or condition of this Agreement will be deemed to have been waived, except by a statement in writing signed by the party against whom enforcement of the waiver is sought. Any written waiver will not be deemed a continuing waiver unless specifically stated, will operate only as to the specific term or condition waived and will not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

(h) Assignment. This Agreement will not be assignable, in whole or in part, by either party without the prior written consent of the other party, except that the Company may, without the consent of Executive, assign its rights and obligations under this Agreement (1) to an Affiliate or (2) to any corporation or other person or business entity to which the Company may sell or transfer all or substantially all of its assets; provided, however, that the Company’s assignment of rights may only take place if the assignee accepts and agrees to all of the obligations to Executive under this Agreement. After any such assignment by the Company, the Company will be discharged from all further liability hereunder and such assignee will thereafter be deemed to be “the Company” for purposes of all terms and conditions of this Agreement, including this Section 12. For the avoidance of doubt, in the event of Executive’s death, all payments and obligations to Executive shall be paid to Executive’s estate.

(i) Counterparts. This Agreement may be executed by facsimile signature and in any number of counterparts, and such counterparts executed and delivered, each as an original, will constitute but one and the same instrument.

(j) Severability. Subject to Section 7(f) hereof, to the extent that any portion of any provision of this Agreement is held invalid or unenforceable, it will be considered deleted herefrom and the remainder of such provision and of this Agreement will be unaffected and will continue in full force and effect.

(k) Captions and Headings. The captions and paragraph headings used in this Agreement are for convenience of reference only and will not affect the construction or interpretation of this Agreement or any of the provisions hereof.

Executive and the Company have executed this Agreement effective as of the Effective Date set forth in the first paragraph.

Tactile Systems Technology, Inc.

By: /s/ Gerald Mattys

Gerald Mattys
Chief Executive Officer

/s/ Mary Anderson

Mary Anderson

EXHIBIT B

RELEASE

1. Time for Signing. Executive warrants and represents that she has not signed this Release until on or after the dates set forth in Section 2(e) (July 1, 2017 and December 31, 2017, respectively). Executive has executed a separate Release upon each occasion.
 2. Return of Company Property. Executive warrants and represents that she has returned all Tactile property in her possession, including without limitation, information (whether electronic or hard copy), security cards, credit cards, phone cards, laptop computer, computer manuals, keys, documents, business equipment, computer software, disks and media, policy and procedure manuals and any other documents or materials pertaining to any matter Executive worked on for the Company as of the date of this Release, except as expressly agreed between Executive and Company to permit Executive to perform the consulting services.
 3. In consideration of the benefits provided herein, Anderson, on behalf of herself, her agents, representatives, attorneys, assignees, heirs, executors, and administrators, covenants not to sue, releases and forever discharges the Company, and its past and present employees, agents, insurers, officials, officers, directors, divisions, parents, subsidiaries, predecessors and successors, and all affiliated entities and persons, and all of their respective past and present employees, agents, insurers, officials, officers, and directors (the "Released Parties") from any and all past and present claims and causes of action of any type, including any and all claims arising, or which may have arisen, out of or in connection with her employment or separation of her employment with the Company, to the extent permitted by law. Executive specifically intends that this Release includes, but is not limited to, any causes of actions or claims she may have arising out of or based upon the Federal Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e, et seq., the Age Discrimination in Employment Act of 1967, 29 U.S.C. § 623, et seq., as amended by the Older Workers Benefit Protection Act, the Americans with Disabilities Act, 42 U.S.C. § 12101, et seq., the Family and Medical Leave Act, the Occupational Safety and Health Act, the Minnesota Human Rights Act, Minnesota Statutes §363A.01 et seq., Minnesota Statutes Chapter 181, including Minnesota's whistleblower statute, the Minnesota Constitution, Minnesota common law, claims under any other federal, state or local statute, ordinance, regulation or order regarding employment, compensation for employment, termination of employment, or discrimination in employment, and the common law of any state. Executive understands and agrees that this discharge of claims extends to, but is not limited to, all claims which she may have as of the date of this Agreement against Tactile, based upon statutory or common law claims for defamation, libel, slander, assault, battery, negligent or intentional infliction of emotional distress, negligent hiring or retention, breach of contract, promissory estoppel, fraud, wrongful discharge, invasion of privacy, retaliation, whistleblowing, claims for bonuses or commissions, claims for unpaid wages, or claims based on any other theory, whether legal or equitable, and any and all claims for damages, attorneys' fees or costs, including all claims under the Employment Agreement. Executive acknowledges that this Release includes all claims she is legally permitted to release and as such does not apply to vested rights in any Tactile retirement plans, nor does it preclude her from exercising any Protected Government Rights, as described in Section 4 of the Agreement.
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4. Notification of Release and Right to Rescind. **This Release contains a release of certain legal rights which Anderson may have including under the Age Discrimination in Employment Act and the Minnesota Human Rights Act.** Anderson has been given more than twenty-one (21) days within which to consider this Release. Anderson should consult with an attorney regarding such release and other aspects of this Agreement before signing this Release. Anderson understands that she may nullify and rescind this Release at any time within fifteen (15) days from the date of her signature below by indicating her desire to do so in writing and delivering that writing to **Gerald Mattys, 1331 Tyler St. NE, Suite 200, Minneapolis, MN 55413**, by hand or by certified mail, return receipt requested. If Anderson fails to properly deliver or mail such written rescission as instructed, the rescission shall not be effective. Anderson further understands that if she rescinds this Release on a timely basis, Anderson will have no right to receive or retain the compensation or benefits that are conditioned upon her signing and not rescinding this Release.
5. Executive Understands the Terms of this Agreement. Other than stated herein, Executive warrants that (a) no promise or inducement has been offered for this Release; (b) this Release is executed without reliance upon any statement or representation of Tactile or its representatives concerning the nature and extent of any claims or liability therefor, if any; (c) Executive is legally competent to execute this Release and accepts full responsibility therefor; (d) Executive has been represented by and consulted with counsel of her choice with respect to this Release; (e) Tactile has allowed Executive more than twenty-one (21) days within which to consider this proposed Release; and (f) Executive fully understands this Release and has been advised by counsel of the consequences of signing this Release (or has consciously chosen not to seek counsel).
6. Employee may sign and return this Release:
 - a. Pursuant to Section 2(e): on or after July 1, 2017 and by 4:00 pm Central Time on July 22, 2017;
 - b. Pursuant to Section 2(e)(ii): on or after December 31, 2017 and by 4:00 pm Central Time on January 21, 2018.
 - c. If Employee has not signed this Release and returned it to **Gerald Mattys, 1331 Tyler St. NE, Suite 200, Minneapolis, MN 55413**, within the dates and times set forth herein, the offer of this Release, she shall not be entitled to any amounts or benefits that are conditioned upon the Release.

AGREED:

Date: _____

Mary E. Anderson

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gerald R. Mattys, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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. 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
 - c. 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 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.

/s/ Gerald R. Mattys

Gerald R. Mattys
Chief Executive Officer

Date: August 7, 2017

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lynn L. Blake, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer 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 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. 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
 - c. 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 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.

/s/ Lynn L. Blake

Lynn L. Blake
Chief Financial Officer

Date: August 7, 2017

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the “Company”) for the period ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Gerald R. Mattys, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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/ Gerald R. Mattys

Gerald R. Mattys
Chief Executive Officer

Date: August 7, 2017

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Tactile Systems Technology, Inc. (the “Company”) for the period ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Lynn L. Blake, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to her knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; 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/ Lynn L. Blake

Lynn L. Blake
Chief Financial Officer

Date: August 7, 2017
