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

FORM 10-Q

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

For the quarterly period ended: March 31, 2024

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)	**3701 Wayzata Blvd, Suite 300** **Minneapolis, Minnesota 55416** (Address and zip code of principal executive offices)	**41-1801204** (I.R.S. Employer Identification No.)

(612) 355-5100
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value $0.001 Per Share	TCMD	The Nasdaq Stock Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☑	Non-accelerated filer	☐
Smaller reporting company	☐	Emerging growth company	☐		

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

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

23,762,164 shares of common stock, par value $0.001 per share, were outstanding as of May 2, 2024.

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PART II—OTHER INFORMATION

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," "ongoing," "plan," "potential," "predict," "project," "should," "target," "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. These risks, uncertainties and other factors include, but are not limited to:

- our ability to obtain reimbursement from third-party payers for our products;
- the impact of inflation, rising interest rates or recession;
- the adequacy of our liquidity to pursue our business objectives;
- adverse economic conditions or intense competition;
- price increases for supplies and components;
- wage and component price inflation;
- loss of a key supplier;
- entry of new competitors and products;
- compliance with and changes in federal, state and local government regulation;
- loss or retirement of key executives, including transition matters related to our upcoming Chief Executive Officer change;
- technological obsolescence of our products;
- technical problems with our research and products;
- our ability to expand our business through strategic acquisitions;
- our ability to integrate acquisitions and related businesses;
- the effects of current and future U.S. and foreign trade policy and tariff actions; and
- the inability to carry out research, development and commercialization plans.

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, 2023, 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, whether as a result of new information, future events or otherwise. 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)	March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 60,706	$ 61,033
Accounts receivable	40,491	43,173
Net investment in leases	14,324	14,195
Inventories	20,844	22,527
Prepaid expenses and other current assets	4,908	4,366
Total current assets	141,273	145,294
Non-current assets		
Property and equipment, net	6,217	6,195
Right of use operating lease assets	18,480	19,128
Intangible assets, net	45,795	46,724
Goodwill	31,063	31,063
Accounts receivable, non-current	6,953	10,936
Deferred income taxes	19,294	19,378
Other non-current assets	2,965	2,720
Total non-current assets	130,767	136,144
Total assets	$ 272,040	$ 281,438
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 5,488	$ 6,659
Note payable	2,956	2,956
Accrued payroll and related taxes	11,023	16,789
Accrued expenses	6,866	5,904
Income taxes payable	725	1,467
Operating lease liabilities	2,740	2,807
Other current liabilities	3,335	4,475
Total current liabilities	33,133	41,057
Non-current liabilities		
Note payable, non-current	25,437	26,176
Accrued warranty reserve, non-current	1,645	1,681
Income taxes payable, non-current	495	446
Operating lease liabilities, non-current	17,857	18,436
Total non-current liabilities	45,434	46,739
Total liabilities	78,567	87,796
Commitments and Contingencies (see Note 9)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 50,000,000 shares authorized; none issued and outstanding as of March 31, 2024 and December 31, 2023	—	—
Common stock, $0.001 par value, 300,000,000 shares authorized; 23,761,897 shares issued and outstanding as of March 31, 2024; 23,600,584 shares issued and outstanding as of December 31, 2023	24	24
Additional paid-in capital	176,764	174,724
Retained earnings	16,685	18,894
Total stockholders' equity	193,473	193,642
Total liabilities and stockholders' equity	$ 272,040	$ 281,438

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

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

(In thousands, except share and per share data)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Revenue		
Sales revenue	$ 53,307	$ 52,791
Rental revenue	7,781	6,055
Total revenue	61,088	58,846
Cost of revenue		
Cost of sales revenue	14,944	14,642
Cost of rental revenue	2,715	2,736
Total cost of revenue	17,659	17,378
Gross profit		
Gross profit - sales revenue	38,363	38,149
Gross profit - rental revenue	5,066	3,319
Gross profit	43,429	41,468
Operating expenses		
Sales and marketing	27,357	26,302
Research and development	2,143	2,233
Reimbursement, general and administrative	16,261	15,434
Intangible asset amortization and earn-out	632	1,305
Total operating expenses	46,393	45,274
Loss from operations	(2,964)	(3,806)
Other expense	155	(993)
Loss before income taxes	(2,809)	(4,799)
Income tax benefit	(600)	(2,913)
Net loss	$ (2,209)	$ (1,886)
Net loss per common share		
Basic	$ (0.09)	$ (0.09)
Diluted	$ (0.09)	$ (0.09)
Weighted-average common shares used to compute net loss per common share		
Basic	23,665,829	21,283,752
Diluted	23,665,829	21,283,752

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

(In thousands, except share data)	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
Balances, December 31, 2023	23,600,584	$ 24	$ 174,724	$ 18,894	$ 193,642
Stock-based compensation	—	—	2,039	—	2,039
Exercise of common stock options and vesting of performance and restricted stock units	161,313	—	1	—	1
Net loss for the period	—	—	—	(2,209)	(2,209)
Balances, March 31, 2024	23,761,897	$ 24	$ 176,764	$ 16,685	$ 193,473
Balances, December 31, 2022	20,252,677	$ 20	$ 131,001	$ (9,621)	$ 121,400
Stock-based compensation	—	—	2,023	—	2,023
Exercise of common stock options and vesting of performance and restricted stock units	107,388	—	—	—	—
Sale of common stock from follow-on public offering, net of offering expenses	2,875,000	3	34,622	—	34,625
Net loss for the period	—	—	—	(1,886)	(1,886)
Balances, March 31, 2023	23,235,065	$ 23	$ 167,646	$ (11,507)	$ 156,162

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

(In thousands)	Three Months Ended March 31, 2024	2023
Cash flows from operating activities		
Net loss	$ (2,209)	$ (1,886)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,634	1,629
Deferred income taxes	84	—
Stock-based compensation expense	2,039	2,023
Loss on disposal of property and equipment and intangibles	—	3
Change in fair value of earn-out liability	—	660
Changes in assets and liabilities, net of acquisition:		
Accounts receivable	2,682	3,806
Net investment in leases	(129)	2,349
Inventories	1,683	3,110
Income taxes	(693)	(2,919)
Prepaid expenses and other assets	(787)	(1,056)
Right of use operating lease assets	2	71
Accounts receivable, non-current	3,983	3,078
Accounts payable	(1,396)	(403)
Accrued payroll and related taxes	(5,766)	(5,636)
Accrued expenses and other liabilities	(203)	(5,331)
Net cash provided by (used in) operating activities	924	(502)
Cash flows from investing activities		
Purchases of property and equipment	(482)	(241)
Intangible assets expenditures	(20)	(50)
Net cash used in investing activities	(502)	(291)
Cash flows from financing activities		
Payments on note payable	(750)	(750)
Proceeds from exercise of common stock options	1	—
Proceeds from issuance of common stock at market	—	34,625
Net cash (used in) provided by financing activities	(749)	33,875
Net (decrease) increase in cash and cash equivalents	(327)	33,082
Cash and cash equivalents – beginning of period	61,033	21,929
Cash and cash equivalents – end of period	$ 60,706	$ 55,011
Supplemental cash flow disclosure		
Cash paid for interest	$ 583	$ 927
Cash paid for taxes	$ 54	$ 6
Capital expenditures incurred but not yet paid	$ 225	$ 10

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

Note 1. Nature of Business and Operations

Tactile Systems Technology, Inc. ("we," "us," "our," and the "Company") manufactures and distributes medical devices for the treatment of patients with underserved chronic diseases at home. We provide our Flexitouch® Plus and Entre™ Plus systems, which help control symptoms of lymphedema, a chronic progressive medical condition, through our direct sales force for use in the home following receipt of prescriptions from vascular, wound and lymphedema clinics throughout the United States.

On September 8, 2021, we acquired the assets of the AffloVest airway clearance business ("AffloVest Acquisition"). AffloVest is a portable, wearable vest that treats patients with chronic respiratory conditions. We sell this device through home medical equipment and durable medical equipment ("DME") providers throughout the United States.

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 our reincorporation as a Delaware corporation. The resulting corporation assumed the name Tactile Systems Technology, Inc. In September 2013, we began doing business as "Tactile Medical".

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.

On February 27, 2023, we closed on a public offering of 2,875,000 shares of our common stock at a public offering price of $13.00 per share. We received net proceeds from this offering of $34.6 million after deducting underwriting discounts, commissions, and offering expenses.

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 revenue in the third and fourth quarters of the year when patients have met their annual insurance deductibles, thereby reducing their out-of-pocket costs for our products, and because patients desire to exhaust their flexible spending accounts at year end. This seasonality applies only to purchases and rentals of our products by patients covered by commercial insurance and is not relevant to Medicare, Medicaid or the Veterans Administration, as those payers either do not have plans that have declining deductibles over the course of the plan year and/or do not have plans that include patient deductibles for purchases or rentals of our products.

Note 2. Basis of Presentation

The 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.

The results for the three months ended March 31, 2024, are not necessarily indicative of results to be expected for the year ending December 31, 2024, or for any other interim period or for any future year. 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, 2023.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Tactile Systems Technology, Inc. and its wholly owned subsidiary, Swelling Solutions, Inc. All intercompany balances and transactions have been eliminated in consolidation.

Use of 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 to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 3. Summary of Significant Accounting Policies

Significant Accounting Policies

There were no material changes in our significant accounting policies during the three months ended March 31, 2024. See Note 3 – "Summary of Significant Accounting Policies" to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023, for information regarding our significant accounting policies.

Accounting Pronouncement Not Yet Adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" which requires entities to enhance disclosures around segment reporting. The guidance is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" which requires entities to enhance disclosures around income taxes. The guidance is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the effect this standard will have on its consolidated financial statements and related disclosures.

Note 4. Inventories

Inventories consisted of the following:

(In thousands)	At March 31, 2024	At December 31, 2023
Finished goods	$ 7,519	$ 7,979
Component parts and work-in-process	13,325	14,548
Total inventories	$ 20,844	$ 22,527

Note 5. Goodwill and Intangible Assets

Goodwill

In the third quarter of fiscal 2021, we completed the AffloVest Acquisition. The purchase price of the AffloVest product line exceeded the net acquisition-date estimated fair value amounts of the identifiable assets acquired and the liabilities assumed by $31.1 million, which was assigned to goodwill.

Intangible Assets

Our patents and other intangible assets are summarized as follows:

(In thousands)	Weighted-Average Amortization Period	At March 31, 2024 Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	$ 1,039	$ 269	$ 770
Defensive intangible assets	1 year	1,125	956	169
Customer accounts	—	125	125	—
Customer relationships	10 years	31,000	6,107	24,893
Developed technology	8 years	13,000	3,027	9,973
Subtotal		46,289	10,484	35,805
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		490	—	490
Total intangible assets		$ 56,279	$ 10,484	$ 45,795

(In thousands)	Weighted-Average Amortization Period	At December 31, 2023 Gross Carrying Amount	Accumulated Amortization	Net Amount
Definite-lived intangible assets:				
Patents	12 years	$ 1,018	$ 248	$ 770
Defensive intangible assets	1 year	1,125	920	205
Customer accounts	—	125	125	—
Customer relationships	11 years	31,000	5,511	25,489
Developed technology	9 years	13,000	2,731	10,269
Subtotal		46,268	9,535	36,733
Unamortized intangible assets:				
Tradenames		9,500	—	9,500
Patents pending		491	—	491
Total intangible assets		$ 56,259	$ 9,535	$ 46,724

Amortization expense was $0.9 million and $1.0 million for the three months ended March 31, 2024 and 2023, respectively. Future amortization expenses are expected as follows:

(In thousands)	
2024 (April 1 - December 31)	$ 2,847
2025	3,707
2026	3,642
2027	3,634
2028	3,631
Thereafter	18,344
Total	$ 35,805

In the third quarter of 2023, we performed our annual goodwill impairment test utilizing both the qualitative and quantitative approach described in FASB ASU No. 2021-03, “Intangibles—Goodwill and Other (Topic 350) – Accounting Alternative for Evaluating Triggering Events.” Based on the testing using the qualitative approach, it was determined that it was not more likely than not that the fair value of the reporting unit was less than the carrying value. As a result, it was not deemed necessary to proceed to the quantitative test and no impairment was recognized.

Note 6. Accrued Expenses

Accrued expenses consisted of the following:

(In thousands)	At March 31, 2024	At December 31, 2023
Warranty	$ 2,191	$ 2,357
In-transit inventory	1,454	401
Travel	1,119	1,038
Legal and consulting	742	611
Clinical studies	356	363
Sales and use tax	184	183
Other	820	951
Total	$ 6,866	$ 5,904

Note 7. Warranty Reserves

The activity in the warranty reserve during and as of the end of the reporting periods presented was as follows:

	Three Months Ended March 31,	
(In thousands)	2024	2023
Beginning balance	$ 4,038	$ 4,212
Warranty provision	840	874
Processed warranty claims	(1,042)	(1,086)
Ending balance	$ 3,836	$ 4,000
Accrued warranty reserve, current	$ 2,191	$ 1,916
Accrued warranty reserve, non-current	1,645	2,084
Total accrued warranty reserve	$ 3,836	$ 4,000

Note 8. Credit Agreement

On April 30, 2021, we entered into an Amended and Restated Credit Agreement (the “Restated Credit Agreement”) with the lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent. The Restated Credit Agreement amended and restated in its entirety our prior credit agreement.

On September 8, 2021, we entered into a First Amendment Agreement (the “Amendment”), which amended the Restated Credit Agreement (as amended by the Amendment, the “Credit Agreement”) with the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent. The Amendment, among other things, added a $30.0 million incremental term loan to the $25.0 million revolving credit facility provided by the Restated Credit Agreement. The term loan is reflected on our condensed consolidated financial statements as a note payable. The Credit Agreement provides that, subject to satisfaction of certain conditions, we may increase the amount of the revolving loans available under the Credit Agreement and/or add one or more term loan facilities in an amount not to exceed $25.0 million in the aggregate, such that the total aggregate principal amount of loans available under the Credit Agreement (including under the revolving credit facility) does not exceed $80.0 million.

On September 8, 2021, in connection with the closing of the AffloVest Acquisition, we borrowed the $30.0 million term loan and utilized that borrowing, together with a draw of $25.0 million under the revolving credit facility and cash on hand, to fund the purchase price.

On February 22, 2022, we entered into a Second Amendment Agreement (the “Second Amendment”), which further amended the Credit Agreement. The Second Amendment modified the maximum leverage ratio, the minimum fixed charge coverage ratio and the minimum consolidated EBITDA covenants under the Credit Agreement, and added a minimum liquidity covenant, through the quarter ended June 30, 2023. The Second Amendment also increased the applicable margin for LIBOR rate loans under the Credit Agreement during the period commencing on the date of the Second Amendment and ending on the last day of the fiscal quarter ending June 30, 2023. Pursuant to the Second Amendment, we made a mandatory principal prepayment of the term loan of $3.0 million on February 22, 2022.

On June 21, 2023, we entered into a Third Amendment Agreement (the “Third Amendment”) that replaced the interest rate benchmark under the Credit Agreement from LIBOR to the term Secured Overnight Financing Rate (“SOFR”). All tenors of term SOFR are subject to a credit spread adjustment of 0.10% (“Adjusted Term SOFR”).

Following the Third Amendment, the term loan and amounts drawn under the revolving credit facility bear interest, at our option, at a rate equal to (a) the highest of (i) the prime rate, (ii) the federal funds rate plus 0.50% and (iii) Adjusted Term SOFR for a one-month tenor plus 1% (the “Base Rate”) plus an applicable margin or (b) Adjusted Term SOFR for an interest period of one, three or six months, at our option, plus the applicable margin. The applicable margin is 0.75% to 2.25% on loans bearing interest at the Base Rate and 1.75% to 3.25% on loans bearing interest at Adjusted Term SOFR, in each case depending on our consolidated total leverage ratio; except that, pursuant to the Second Amendment and the Third Amendment, during the period commencing on February 22, 2022 and ending on the last day of the fiscal quarter ending June 30, 2023, the applicable margin for LIBOR rate loans and Adjusted Term SOFR loans, as applicable, was 3.50%.

On August 1, 2023, we entered into a Fourth Amendment Agreement (the “Fourth Amendment”), which further amended the Credit Agreement. The Fourth Amendment, among other things, decreased the commitment fees payable under the revolving credit facility under the Credit Agreement such that the undrawn portions of the revolving credit facility are subject to an unused line fee at a rate per annum from 0.125% to 0.200%, depending on our consolidated leverage ratio, and eliminated the language providing that the applicable margin for Adjusted Term SOFR loans was 3.50%, such that the interest rates are in effect as set forth in the above paragraph. The Fourth Amendment also eliminated the liquidity financial covenant and modified the remaining financial covenants to reflect the termination of the temporary covenant relief period that was in place until June 30, 2023 pursuant to the Second Amendment, such that the financial covenants now include a maximum consolidated total leverage ratio covenant, a minimum consolidated EBITDA covenant and a minimum fixed charge coverage ratio covenant. In addition, the Fourth Amendment provided for an additional term loan in the amount of $8.25 million, which we used for a paydown of the revolving credit facility. The Fourth Amendment also extended the maturity date of the term loans and revolving credit facility under the Credit Agreement from September 8, 2024, to August 1, 2026.

On December 21, 2023, we made a payment of $16.8 million to repay in full the outstanding balance on the revolving credit facility

As of March 31, 2024, we had outstanding borrowings of $28.5 million under the Credit Agreement, comprised entirely of the term loan. At March 31, 2024, all outstanding borrowings were subject to interest at a rate calculated at Adjusted Term SOFR plus an applicable margin, for an interest rate of 7.16%. The principal of the term loan is required to be repaid in quarterly installments of $750,000. Maturities of the term loan for the next three years as of March 31, 2024, were as follows:

(In thousands)		Amount
2024 (April 1 - December 31)	$	2,250
2025		3,000
2026		23,250
Total		28,500
Less: Deferred financing fees		(107)
Net Note Payable		28,393
Less: Current portion of note payable		(2,956)
Non-current portion of note payable	$	25,437

Our obligations under the Credit Agreement are secured by a security interest in substantially all of our and our subsidiary's assets and are also guaranteed by our subsidiary. As of March 31, 2024, the Credit Agreement contained a number of restrictions and covenants, including that we maintain compliance with a maximum consolidated total leverage ratio, a minimum fixed charge coverage ratio and a minimum consolidated EBITDA covenant. As of March 31, 2024, we were in compliance with all financial covenants under the Credit Agreement.

Note 9. Commitments and Contingencies

Lease Obligations

We lease property and equipment under operating leases, typically with terms greater than 12 months, and determine if an arrangement contains a lease at inception. In general, an arrangement contains a lease if there is an identified asset and we have the right to direct the use of and obtain substantially all of the economic benefit from the use of the identified asset. We record an operating lease liability at the present value of lease payments over the lease term on the commencement date. The related right of use ("ROU") operating lease asset reflects rental escalation clauses, as well as renewal options and/or termination options. The exercise of lease renewal and/or termination options are at our discretion and are included in the determination of the lease term and lease payment obligations when it is deemed reasonably certain that the option will be exercised. When available, we use the rate implicit in the lease to discount lease payments to present value; however, certain leases do not provide a readily determinable implicit rate. Therefore, we must estimate our incremental borrowing rate to discount the lease payments based on information available at lease commencement.

We classify our leases as buildings, vehicles or computer and office equipment and do not separate lease and non-lease components of contracts for any of the aforementioned classifications. In accordance with applicable guidance, we do not record leases with terms that are less than one year on the Condensed Consolidated Balance Sheets.

None of our lease agreements contain material restrictive covenants or residual value guarantees.

Buildings

We lease certain office and warehouse space at various locations in the United States where we provide services. These leases are typically greater than one year with fixed, escalating rents over the noncancelable terms and, therefore, ROU operating lease assets and operating lease liabilities are recorded on the Condensed Consolidated Balance Sheets, with rent expense recognized on a straight-line basis over the term of the lease. The remaining lease terms vary from approximately one to seven years as of March 31, 2024.

We entered into a lease (“initial lease”) in October 2018, for approximately 80,000 square feet of office space for our new corporate headquarters in Minneapolis, Minnesota. In December 2018, we amended the initial lease to add approximately 29,000 square feet of additional office space, which is accounted for as a separate lease (“second lease”) in accordance with ASU No. 2016-02, “Leases” (Topic 842) (“ASC 842”). In December 2019, we further amended the lease which extended the expiration date of the initial lease, extended the expiration date of and added approximately 4,000 square feet to the second lease, as well as added approximately 37,000 square feet of additional office space, accounted for as a separate lease (“third lease”) in accordance with ASC 842. The portion of the space covered under the initial lease was placed in service in September 2019. The portion of the space covered under the second lease commenced in September 2020. Finally, the portion of the space covered under the third lease commenced in September 2021. The three portions were recognized as an operating lease and included in the ROU operating lease assets and operating lease liabilities on the Condensed Consolidated Balance Sheets.

Computer and Office Equipment

We also have operating lease agreements for certain computer and office equipment. The remaining lease terms as of March 31, 2024, ranged from less than one year to approximately four years with fixed monthly payments that are included in the ROU operating lease assets and operating lease liabilities. The leases provide an option to purchase the related equipment at fair market value at the end of the lease. The leases will automatically renew as a month-to-month rental at the end of the lease if the equipment is not purchased or returned.

Lease Position, Undiscounted Cash Flow and Supplemental Information

The table below presents information related to our ROU operating lease assets and operating lease liabilities that we have recorded:

(In thousands)	At March 31, 2024	At December 31, 2023
Right of use operating lease assets	$ 18,480	$ 19,128
Operating lease liabilities:		
Current	$ 2,740	$ 2,807
Non-current	17,857	18,436
Total	$ 20,597	$ 21,243
Operating leases:		
Weighted average remaining lease term	6.5 years	6.7 years
Weighted average discount rate	4.3%	4.3%

	Three Months Ended March 31,	
	2024	2023
Supplemental cash flow information for our operating leases:		
Cash paid for operating lease liabilities	$ 867	$ 860

The table below reconciles the undiscounted cash flows for the periods presented to the operating lease liabilities recorded on the Condensed Consolidated Balance Sheet for the periods presented:

(In thousands)	
2024 (April 1 - December 31)	$ 2,667
2025	3,644
2026	3,715
2027	3,210
2028	3,185
Thereafter	6,943
Total minimum lease payments	23,364
Less: Amount of lease payments representing interest	(2,767)
Present value of future minimum lease payments	20,597
Less: Current obligations under operating lease liabilities	(2,740)
Non-current obligations under operating lease liabilities	$ 17,857

Operating lease costs were $0.9 million for each of the three months ended March 31, 2024 and 2023.

Major Vendors

We had purchases from one vendor that accounted for 23% of our total purchases for the three months ended March 31, 2024 and purchases from one vendor that accounted for 29% of our total purchases for the three months ended March 31, 2023.

Purchase Commitments

We issued purchase orders prior to March 31, 2024, totaling $25.7 million for goods that we expect to receive within the next year.

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 recorded an expense related to our discretionary contributions to the 401(k) plan of $0.7 million and $0.4 million for the three months ended March 31, 2024 and 2023, respectively.

Legal Proceedings

From time to time, we are subject to various claims and legal proceedings arising in the ordinary course of 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.

On May 24, 2022, a stockholder derivative lawsuit was filed in the United States District Court for the District of Minnesota, purportedly on behalf of the Company against certain of our present and former officers and directors and the Company (as a nominal defendant), captioned Jack Weaver v. Moen, et al., File No. 0:22-cv-01403-NEB-BRT (the “Weaver Lawsuit”). The Weaver Lawsuit generally arises out of the same subject matter as a previously settled securities class action captioned Brian Mart v. Tactile Sys. Tech., Inc., et al., File No. 0:20-cv-02074-NEB-BRT (D. Minn.) (the “Mart Lawsuit”), which alleged, inter alia, that we and eight of our former officers and directors made materially false or misleading statements about our business, operational and compliance policies. The Weaver Lawsuit alleges the following claims under the Exchange Act and common law: (1) that the director defendants made materially false or misleading public statements in proxy statements in violation of Section 14(a) of the Exchange Act; (2) that the director defendants’ stock and option awards should be rescinded under Section 29(b) of the Exchange Act; (3) that the officer defendants’ employment contract compensation should be rescinded under Section 29(b) of the Exchange Act; (4) that certain officer defendants are liable for contribution arising out of any liability incurred in the Mart Lawsuit, under Sections 10(b) and 21D of the Exchange Act; (5) that the individual defendants breached their fiduciary duties; and (6) that the individual defendants were unjustly enriched. The lawsuit seeks unspecified damages. In August 2022, the matter was transferred to the United States District Court for the District of Delaware by order granting the Parties Stipulation to Transfer. On February 10, 2023, we filed a motion to dismiss the action. The plaintiff filed an Amended Complaint on March 3, 2023. On March 31, 2023, we filed a motion to dismiss the Amended Complaint, which is pending. On July 31, 2023, the plaintiff filed a Joint Notice of Preliminary Settlement indicating that the parties have reached a non-binding settlement-in-principal on most of the material terms that would resolve all claims between the parties and requested that the Court temporarily stay all deadlines, hearings, and conferences while the parties continue to finalize settlement.

Note 10. Stockholders' Equity

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, expired, cancelled, settled for cash or otherwise not issued, will become available for issuance under the 2016 Plan. Pursuant to the automatic increase feature of the 2016 Plan, 1,180,019 shares were added as available for issuance thereunder on January 1, 2024. Our Board of Directors exercised its prerogative to forego the automatic increase on January 1, 2023. As of March 31, 2024, 6,451,155 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 $2.0 million for each of the three months ended March 31, 2024 and 2023. This expense was allocated as follows:

(In thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cost of revenue	$ 83	$ 103
Sales and marketing expenses	738	752
Research and development expenses	33	49
Reimbursement, general and administrative expenses	1,185	1,119
Total stock-based compensation expense	$ 2,039	$ 2,023

Stock Options

Stock options issued to participants other than non-employees typically vest over three or four years and typically have a contractual term of seven or ten years. Stock-based compensation expense included in the Condensed Consolidated Statements of Operations for stock options was $0.1 million and $0.3 million for the three months ended March 31, 2024 and 2023, respectively. At March 31, 2024, there was approximately $0.1 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 1.0 years.

Our stock option activity for the three months ended March 31, 2024, was as follows:

(In thousands except options and per share data)	Options Outstanding	Weighted-Average Exercise Price Per Share (1)	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value (2)
Balance at December 31, 2023	429,960	$ 40.74	3.8 years	$ 223
Exercised	(354)	$ 1.35		$ 5
Forfeited	—	$ —		
Cancelled/Expired	(6,849)	$ 44.62		
Balance at March 31, 2024	422,757	$ 40.71	3.6 years	$ 289
Options exercisable at March 31, 2024	395,952	$ 41.94	3.5 years	$ 160

(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 trading day of the period.

Options exercisable of 479,622 as of March 31, 2023, had a weighted-average exercise price of $44.60 per share.

Time-Based Restricted Stock Units

We have granted time-based restricted stock units to certain participants under the 2016 Plan that are stock-settled with common shares. Time-based restricted stock units granted under the 2016 Plan vest over one to three years. Stock-based compensation expense included in the Condensed Consolidated Statements of Operations for time-based restricted stock units was $1.4 million and $1.3 million for the three months ended March 31, 2024 and 2023, respectively. At March 31, 2024, there was approximately $9.9 million of total unrecognized pre-tax compensation expense related to outstanding time-based restricted stock units that is expected to be recognized over a weighted-average period of 2.2 years.

Our time-based restricted stock unit activity for the three months ended March 31, 2024, was as follows:

(In thousands except unit and per unit data)	Units Outstanding		Weighted-Average Grant Date Fair Value Per Unit		Aggregate Intrinsic Value [(1)]
Balance at December 31, 2023	589,142	$	16.35	$	8,425
Granted	367,036	$	13.88		
Vested	(133,324)	$	17.60		
Cancelled	(9,252)	$	18.20		
Balance at March 31, 2024	813,602	$	15.01	$	13,221

(1) The aggregate intrinsic value of restricted stock units outstanding was based on our closing stock price on the last trading day of the period.

Performance-Based Restricted Stock Units

We have granted performance-based restricted stock units ("PSUs") to certain participants under the 2016 Plan. These PSUs have both performance-based and time-based vesting features. The PSUs granted in 2023 have three separate performance periods, and one-third of each grant will be earned if and to the extent performance goals based on revenue change and adjusted EBITDA margin are achieved in each of 2023 and 2024 (ranging from 25% to 175% of target), and one-third will be earned if and to the extent performance goals based on revenue change and adjusted EBITDA change are achieved in 2025 (ranging from 25% to 175% of target). The PSUs granted in 2024 have three separate performance periods, and one-third of each grant will be earned if and to the extent performance goals based on revenue change and adjusted EBITDA margin are achieved in 2024 (ranging from 25% to 175% of target), one-third will be earned if and to the extent performance goals based on revenue change and adjusted EBITDA change are achieved in 2025 (ranging from 25% to 175% of target), and one-third will be earned if and to the extent performance goals to be established are achieved in 2026. All earned and vested PSUs will be settled in shares of common stock.

Stock-based compensation expense recognized for PSUs was $0.4 million and $0.2 million for the three months ended March 31, 2024 and 2023, respectively. At March 31, 2024, there was approximately $3.1 million of total unrecognized pre-tax compensation expense related to outstanding PSUs that is expected to be recognized over a weighted average period of 2.5 years.

Our PSU activity for the three months ended March 31, 2024, was as follows:

(In thousands except unit and per unit data)	PSUs Outstanding		Weighted-Average Grant Date Fair Value Per Unit		Aggregate Intrinsic Value [(1)]
Balance at December 31, 2023	198,232	$	18.93	$	2,785
Granted	160,659	$	13.88		
Vested	(38,842)	$	29.02		
Cancelled	—	$	—		
Balance at March 31, 2024	320,049	$	15.17	$	5,201

(1) The aggregate intrinsic value of PSUs outstanding was based on our closing stock price on the last trading day of the period.

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 ESPP 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 ESPP provides for six-month purchase periods, beginning on May 16 and November 16 of each calendar year.

A total of 1,600,000 shares of common stock was initially reserved for issuance under the ESPP. 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 (a) 1% of the shares of our common stock outstanding on the immediately preceding December 31, (b) 500,000 shares or (c) such lesser amount as our Board of Directors may determine. Pursuant to the automatic increase feature of the ESPP, 236,003 shares were added as available for issuance thereunder on January 1, 2024. Our Board of Directors exercised its prerogative to forego the automatic increase on January 1, 2023. As of March 31, 2024, 1,605,871 shares were available for future issuance under the ESPP. We recognized stock-based compensation expense associated with the ESPP of $0.1 million and $0.2 million for the three months ended March 31, 2024 and 2023, respectively.

Note 11. Revenue

We derive our revenue from the sale and rental of our products to our customers in the United States. The following table presents our revenue, inclusive of sales and rental revenue, disaggregated by product line:

(In thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Revenue		
Lymphedema products	$ 52,313	$ 49,752
Airway clearance products	8,775	9,094
Total	$ 61,088	$ 58,846
Percentage of total revenue		
Lymphedema products	86%	85%
Airway clearance products	14%	15%
Total	100%	100%

Our revenue by channel, inclusive of sales and rental revenue, for the three months ended March 31, 2024 and 2023, are summarized in the following table:

(In thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Private insurers and other payers	$ 31,277	$ 25,425
Veterans Administration	6,826	5,823
Medicare	14,210	18,504
Durable medical equipment distributors	8,775	9,094
Total	$ 61,088	$ 58,846

Our rental revenue is derived from rent-to-purchase arrangements that typically range from three to ten months. As title transfers to the patient, with whom we have the contract, upon the termination of the lease term and because collectability is probable, under ASC 842, these are recognized as sales-type leases. Each rental agreement contains two components, the controller and related garments, both of which are interdependent and recognized as one lease component.

The revenue and associated cost of revenue of sales-type leases are recognized on the lease commencement date and a net investment in leases is recorded on the Condensed Consolidated Balance Sheets. We bill the patients' insurance payers monthly over the duration of the rental term. We record the net investment in leases and recognize revenue upon commencement of the lease in the amount of the expected consideration to be received through the monthly payments. Similar to our sales revenue, the transaction price is impacted by multiple factors, including the terms and conditions contracted by third-party payers. As the rental contract resides with the patients, we have elected the portfolio approach, at the payer level, to determine the expected consideration, which considers the impact of early terminations. While the contract is with the patient, in certain circumstances, the third-party payer elects an initial rental period with an option to extend. We assess the likelihood of extending the lease at the onset of the lease to determine if the option is reasonably certain to be exercised. As the lease is short-term in nature, we anticipate collection of substantially all of the net investment within the first year of the lease agreement. Completion of these payments represents the fair market value of the equipment, and as such, interest income is not applicable.

Rental revenue for the three months ended March 31, 2024 and 2023, was primarily from private insurers. Sales-type lease revenue and the associated cost of revenue for the three months ended March 31, 2024 and 2023, was:

	Three Months Ended March 31,	
(In thousands)	2024	2023
Sales-type lease revenue	$ 7,781	$ 6,055
Cost of sales-type lease revenue	2,715	2,736
Gross profit	$ 5,066	$ 3,319

Note 12. 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 (loss) and adjusting 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, and deductions related to allowances for doubtful accounts receivable and inventory reserves. Our provision for income taxes includes current federal and state income tax expense, as well as deferred federal and state income tax expense.

The effective tax rate for the three months ended March 31, 2024, was a benefit of 21.4%, compared to a benefit of 60.7% for the three months ended March 31, 2023. The primary driver of the change in our effective tax rate was attributable to the fact that we did not have a full valuation allowance on our deferred tax assets for the current year period, while the prior year period reported a full valuation allowance. We recorded an income tax benefit of $0.6 million and an income tax benefit of $2.9 million for the three months ended March 31, 2024 and 2023, respectively.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority is more-likely-than-not to 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.

The Company currently is not under examination in any jurisdictions.

Note 13. Net Loss Per Share

The following table sets forth the computation of our basic and diluted net loss per share:

(In thousands, except share and per share data)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Net loss	$ (2,209)	$ (1,886)
Weighted-average shares outstanding	23,665,829	21,283,752
Weighted-average shares used to compute diluted net loss per share	23,665,829	21,283,752
Net loss per share - Basic	$ (0.09)	$ (0.09)
Net loss per share - Diluted	$ (0.09)	$ (0.09)

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Restricted stock units	813,602	736,942
Common stock options	422,757	586,212
Performance stock units	320,049	233,798
Employee stock purchase plan	84,891	125,775
Total	1,641,299	1,682,727

Note 14. 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).

As of March 31, 2024, our obligations under the AffloVest Acquisition earn-out arrangements had been paid in full. Prior to the determination of the actual amount of the earn-out, the earn-out liability was valued by employing a Monte Carlo Simulation model in a risk-neutral framework, which is a Level 3 input. The underlying simulated variable included recognized revenue. The recognized revenue volatility estimate was based on a study of historical asset volatility for a set of comparable public companies. The model included other assumptions including the market price of risk, which was calculated as the weighted average cost of capital less the long-term risk-free rate. The earn-out liability was adjusted to fair value at each reporting date until the end of the earn-out period, which was September 30, 2023. Changes in fair value were included in intangible asset amortization and earn-out expenses in our Condensed Consolidated Statements of Operations.

Changes in the earn-out liability measured at fair value using Level 3 inputs were as follows:

(In thousands)	
Earn-out liability at December 31, 2022	$ 13,050
Payment on earn-out	—
Fair value adjustments	660
Earn-out liability at March 31, 2023	$ 13,710

On May 25, 2023, the Company paid $5.0 million, plus an imputed interest payment of $250,000, relating to the initial earn-out. Subsequent to September 30, 2023, it was determined that the calculated amount of the second earn-out payment was $5.6 million, which was paid by the Company on November 28, 2023.

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.

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 the 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 underserved 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 underserved chronic diseases in the home setting to improve patient outcomes and quality of life and help control rising healthcare expenditures. Our areas of therapeutic focus are (1) vascular disease, with a goal of advancing the standard of care in treating lymphedema and chronic venous insufficiency, (2) oncology, where lymphedema is a common consequence among cancer survivors and (3) providing airway clearance therapy for those suffering from chronic respiratory conditions. 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 policymakers and insurance payers as a key for controlling rising healthcare costs. Our solutions deliver cost-effective, clinically proven, long-term treatment for people with these chronic diseases.

Our current lymphedema products are the Flexitouch Plus and Entre Plus systems and our airway clearance product is the AffloVest. 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. In June 2017, we announced that we received 510(k) clearance from the FDA for the Flexitouch Plus, the third-generation version of our Flexitouch system. In December 2020, we received 510(k) clearance for two new indications for our Flexitouch Plus system: phlebolymphedema and lipedema. We introduced our Entre system in the United States in February 2013 and the second generation, Entre Plus, in March 2023. The Entre Plus system is sold or rented to patients who need a simple pump or who do not yet qualify for insurance reimbursement for an advanced compression device such as our Flexitouch Plus system. Sales and rentals of our lymphedema products represented 86% and 85% of our revenue in the three months ended March 31, 2024 and 2023, respectively.

On September 8, 2021, we acquired the assets of the AffloVest airway clearance product line. AffloVest is a portable, wearable vest that provides airway clearance to treat patients with chronic respiratory conditions such as bronchiectasis or conditions resulting from neuromuscular disorders. For the three months ended March 31, 2024 and 2023, sales of AffloVest represented 14% and 15% of our revenue, respectively.

To support the growth of our business, we continue to invest in our commercial infrastructure, consisting of our direct sales force, training resources, reimbursement capabilities and clinical expertise. We market our lymphedema products in the United States using a direct-to-patient and -provider model. The AffloVest device is sold through respiratory durable medical equipment providers throughout the United States that service patients and bill third-party payers for the product. We also employ a small group of respiratory specialists, who educate DME representatives, provide product demonstrations for targeted clinicians and support technical questions related to the AffloVest. As of March 31, 2024, we employed 269 field sales representatives for our lymphedema products and a team of 17 supporting our airway clearance products. This compares to 246 field sales representatives (excluding 4 key account managers) for our lymphedema products and a team of 12 specialists supporting our airway clearance products as of March 31, 2023.

We invest in our reimbursement function to improve operational efficiencies and enhance individual payer expertise, while continuing our strategic focus of payer development. Our payer relations function focuses on payer policy development, education, contract negotiations, and data analysis. Our reimbursement operations function is responsible for verifying patient insurance benefits, individual patient case development, prior authorization submissions, case follow-up, and appeals when necessary.

We also have a clinical team, consisting of a scientific advisory board, in-house therapists and nurses, and a Chief Medical Officer, that serves as a resource to clinicians and patients and guides the development of clinical evidence in support of our products. Most clinical studies require observation and interaction with clinicians and patients to monitor results and progress.

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 products, perform quality assurance and ship our products from our facility in Minnesota. We also manufacture and ship the AffloVest device from our Minnesota-based facility.

In July 2022, we launched Kylee™ a free mobile app that makes it easier for patients to manage their conditions by tracking treatments and symptoms, as well as having direct access to educational resources.

For the three months ended March 31, 2024, we generated revenue of $61.1 million and had a net loss of $2.2 million, compared to revenue of $58.8 million and a net loss of $1.9 million for the three months ended March 31, 2023. Our primary sources of capital since our initial public offering in 2016 have been from operating income, bank financing and our public offering in February 2023.

We operate in one segment for financial reporting purposes.

Current Economic Conditions

General global economic downturns and macroeconomic trends, including heightened inflation, capital market volatility, interest rate fluctuations, increased unemployment and economic slowdown or recession, may result in unfavorable conditions that could negatively affect demand for our products and exacerbate some of the other risks that affect our business, financial condition and results of operations.

Results of Operations

Comparison of the Three Months Ended March 31, 2024 and 2023

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

(In thousands)	Three Months Ended March 31, 2024		2023		Change $	%
Condensed Consolidated Statement of Operations Data:		% of revenue		% of revenue		
Revenue						
Sales revenue	$ 53,307	87 %	$ 52,791	90 %	$ 516	1 %
Rental revenue	7,781	13 %	6,055	10 %	1,726	29 %
Total revenue	61,088	100 %	58,846	100 %	2,242	4 %
Cost of revenue						
Cost of sales revenue	14,944	24 %	14,642	25 %	302	2 %
Cost of rental revenue	2,715	5 %	2,736	5 %	(21)	(1)%
Total cost of revenue	17,659	29 %	17,378	30 %	281	2 %
Gross profit						
Gross profit - sales revenue	38,363	63 %	38,149	65 %	214	1 %
Gross profit - rental revenue	5,066	8 %	3,319	5 %	1,747	53 %
Gross profit	43,429	71 %	41,468	70 %	1,961	5 %
Operating expenses						
Sales and marketing	27,357	45 %	26,302	45 %	1,055	4 %
Research and development	2,143	4 %	2,233	4 %	(90)	(4)%
Reimbursement, general and administrative	16,261	26 %	15,434	26 %	827	5 %
Intangible asset amortization and earn-out	632	1 %	1,305	2 %	(673)	(52)%
Total operating expenses	46,393	76 %	45,274	77 %	1,119	2 %
Loss from operations	(2,964)	(5)%	(3,806)	(7)%	842	(22)%
Other income (expense)	155	— %	(993)	(2)%	1,148	(116)%
Loss before income taxes	(2,809)	(5)%	(4,799)	(9)%	1,990	(41)%
Income tax benefit	(600)	(1)%	(2,913)	(5)%	2,313	(79)%
Net loss	$ (2,209)	(4)%	$ (1,886)	(4)%	$ (323)	17 %

Revenue

Revenue increased $2.2 million, or 4%, to $61.1 million in the three months ended March 31, 2024, compared to $58.8 million in the three months ended March 31, 2023. The increase in total revenue was attributable to an increase of $2.6 million, or 5%, in sales and rentals of the lymphedema product line, partially offset by a decrease of $0.3 million, or 4%, in sales of the airway clearance product line in the quarter ended March 31, 2024, compared to the quarter ended March 31, 2023.

The increase in the lymphedema product line revenue in the three months ended March 31, 2024, was attributable to increasing productivity of our field sales team and continued strength within our entry-level Entre Plus system. The decrease in the airway clearance product line revenue in the three months ended March 31, 2024, was attributable to one large DME provider experiencing slowed placements of our AffloVest system due to the expiration of the COVID-19 Public Health Emergency waiver in May 2023 and a return to “pre-public health emergency’ eligibility requirements.

The following table summarizes our revenue by product line for the three months ended March 31, 2024 and 2023, both in dollars and percentage of total revenue:

(In thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Change $	Change %
Revenue				
Lymphedema products	$ 52,313	$ 49,752	$ 2,561	5%
Airway clearance products	8,775	9,094	(319)	(4)%
Total	$ 61,088	$ 58,846	$ 2,242	4%
Percentage of total revenue				
Lymphedema products	86%	85%		
Airway clearance products	14%	15%		
Total	100%	100%		

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 revenue in the third and fourth quarters of the year when patients have met their annual insurance deductibles, thereby reducing their out-of-pocket costs for our products, and have an increasing desire to exhaust their flexible spending accounts at year end. This seasonality applies only to purchases and rentals of our products by patients covered by commercial insurance and is not relevant to Medicare, Medicaid or the Veterans Administration, as those payers either do not have plans that have declining deductibles over the course of the plan year and/or do not have plans that include patient deductibles for purchases or rentals of our products.

Cost of Revenue and Gross Margin

Cost of revenue increased $0.3 million, or 2%, to $17.7 million in the three months ended March 31, 2024, compared to $17.4 million in the three months ended March 31, 2023. The increase in cost of revenue was primarily attributable to the increase in sales and rentals of the lymphedema product line.

Gross margin was 71.1% and 70.5% in the three months ended March 31, 2024 and 2023, respectively.

Sales and Marketing Expenses

Sales and marketing expenses increased $1.1 million, or 4%, to $27.4 million in the three months ended March 31, 2024, compared to $26.3 million in the three months ended March 31, 2023. The increase was primarily attributable a $0.5 million increase in travel and entertainment expenses, a $0.3 million increase in personnel-related compensation expenses and a $0.3 million increase in general office and printing expenses.

Research and Development Expenses

Research and development (“R&D”) expenses decreased $0.1 million, or 4%, to $2.1 million in the three months ended March 31, 2024, compared to $2.2 million in the three months ended March 31, 2023. The decrease was primarily attributable to a $0.2 million decrease in professional fees, partially offset by a $0.1 million increase in personnel-related compensation expenses.

Reimbursement, General and Administrative Expenses

Reimbursement, general and administrative expenses increased $0.8 million, or 5%, to $16.3 million in the three months ended March 31, 2024, compared to $15.4 million in the three months ended March 31, 2023. This increase was primarily attributable to a $0.5 million increase in personnel-related compensation expenses and a $0.4 million increase in IT related expenses, partially offset by a $0.1 million decrease in professional fees.

Intangible Asset Amortization and Earn-out Expense

Intangible asset amortization and earn-out expense decreased $0.7 million to $0.6 million in the three months ended March 31, 2024, compared to $1.3 million in the three months ended March 31, 2023. The decrease was related to there being no earn-out expense in the three months ended March 31, 2024 compared to an increase in the fair value of the earn-out expense of $0.7 million for the three months ended March 31, 2023.

Other Income (Expense), Net

We recorded other income, net of $0.1 million and other expense, net of $1.0 million for the three months ended March 31, 2024 and 2023, respectively. The primary drivers of the change were a decrease in interest expense of $0.6 million and an increase in interest income of $0.6 million.

Income Taxes

We recorded an income tax benefit of $0.6 million and an income tax benefit of $2.9 million for the three months ended March 31, 2024 and 2023, respectively. The primary driver of the change in our effective tax rate was the fact that we did not have a full valuation allowance on our deferred tax assets for the current year period, while the prior year period reported a full valuation allowance.

Liquidity and Capital Resources

Cash Flows

At March 31, 2024, our principal sources of liquidity were cash and cash equivalents of $60.7 million and net accounts receivable of $47.4 million. This compares to cash and cash equivalents of $55.0 million and net accounts receivable of $71.0 million at March 31, 2023.

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

(In thousands)	Three Months Ended March 31, 2024	2023
Net cash provided by (used in):		
Operating activities	$ 924	$ (502)
Investing activities	(502)	(291)
Financing activities	(749)	33,875
Net (decrease) increase in cash and cash equivalents	$ (327)	$ 33,082

Operating Activities

Net cash provided by operating activities during the three months ended March 31, 2024 was $0.9 million, resulting from non-cash net loss adjustments of $3.8 million, partially offset by a net loss of $2.2 million and a net decrease in operating assets and liabilities of $0.6 million. The positive non-cash net loss adjustments consisted primarily of $2.0 million of stock-based compensation expense and $1.6 million of depreciation and amortization expense. Cash used relating to the change in operating assets and liabilities primarily consisted of a decrease in accrued payroll and related taxes of $5.8 million, a decrease in accounts payable and accrued expenses of $1.6, an increase in prepaid expenses and other assets of $0.8 million and a decrease in income taxes payable of $0.7 million, partially offset by a decrease in accounts receivable of $6.7 million and an increase in inventories of $1.7 million.

Net cash used in operating activities during the three months ended March 31, 2023 was $0.5 million, resulting from a net decrease in operating assets and liabilities of $2.9 million and a net loss of $1.9 million, which were partially offset by non-cash net loss adjustments of $4.3 million. The non-cash net loss adjustments consisted primarily of $2.0 million of stock-based compensation expense, $1.6 million of depreciation and amortization expense and a $0.7 million change in fair value of earn-out liability. Operating liabilities were unfavorably impacted by a decrease in accrued payroll and related taxes, accrued expenses and other liabilities and income taxes payable. Operating assets were favorably impacted by a decrease in accounts receivable, net investment in leases and inventories.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2024, was $0.5 million, consisting of purchases of property and equipment primarily related to tenant improvements, and patent costs.

Net cash used in investing activities during the three months ended March 31, 2023, was $0.3 million, consisting of purchases of property and equipment, and patent costs.

Financing Activities

Net cash used in financing activities during the three months ended March 31, 2024, was $0.7 million, primarily consisting of a $0.8 million payment made on our term loan.

Net cash provided by financing activities during the three months ended March 31, 2023, was $33.9 million, primarily consisting of net proceeds from the offering of our common stock of $34.6 million, slightly offset by a $0.8 million payment made on our term loan.

Credit Agreement

On April 30, 2021, we entered into an Amended and Restated Credit Agreement (the “Restated Credit Agreement”) with the lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent. The Restated Credit Agreement amended and restated in its entirety our prior credit agreement.

On September 8, 2021, we entered into a First Amendment Agreement (the “Amendment”), which amended the Restated Credit Agreement (as amended by the Amendment, the “Credit Agreement”) with the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent. The Amendment, among other things, added a $30.0 million incremental term loan to the $25.0 million revolving credit facility provided by the Restated Credit Agreement. The term loan is reflected on our condensed consolidated financial statements as a note payable. The Credit Agreement provides that, subject to satisfaction of certain conditions, we may increase the amount of the revolving loans available under the Credit Agreement and/or add one or more term loan facilities in an amount not to exceed $25.0 million in the aggregate, such that the total aggregate principal amount of loans available under the Credit Agreement (including under the revolving credit facility) does not exceed $80.0 million.

On September 8, 2021, in connection with the closing of the acquisition of the AffloVest business, we borrowed the $30.0 million term loan and utilized that borrowing, together with a draw of $25.0 million under the revolving credit facility and cash on hand, to fund the purchase price.

On February 22, 2022, we entered into a Second Amendment Agreement (the “Second Amendment”), which further amends the Credit Agreement. The Second Amendment modified the maximum leverage ratio, the minimum fixed charge coverage ratio and the minimum consolidated EBITDA covenants under the Credit Agreement, and added a minimum liquidity covenant, through the quarter ended June 30, 2023. The Second Amendment also increased the applicable margin for LIBOR rate loans under the Credit Agreement during the period commencing on the date of the Second Amendment and ending on the last day of the fiscal quarter ending June 30, 2023. Pursuant to the Second Amendment, we made a mandatory principal prepayment of the term loan of $3.0 million on February 22, 2022.

On June 21, 2023, we entered into a Third Amendment Agreement (the “Third Amendment”) that replaced the interest rate benchmark under the Credit Agreement from LIBOR to the term Secured Overnight Financing Rate (“SOFR”). All tenors of term SOFR are subject to a credit spread adjustment of 0.10% (“Adjusted Term SOFR”).

On August 1, 2023, we entered into a Fourth Amendment Agreement (the “Fourth Amendment”), which further amended the Credit Agreement. The Fourth Amendment, among other things, decreased the commitment fees payable under the revolving credit facility and eliminated the temporary increase in the applicable margin for Adjusted Term SOFR loans. The Fourth Amendment also eliminated the liquidity financial covenant and modified the remaining financial covenants to reflect the termination of the temporary covenant relief period that was in place until June 30, 2023 pursuant to the Second Amendment. In addition, the Fourth Amendment provided for an additional term loan in the amount of $8.25 million, which we used for a paydown of the revolving credit facility. The Fourth Amendment also extended the maturity date of the term loans and revolving credit facility under the Credit Agreement from September 8, 2024 to August 1, 2026.

On December 21, 2023, we made a payment of $16.8 million to repay in full the outstanding balance on the revolving credit facility.

As of March 31, 2024, we had outstanding borrowings of $28.5 million under the Credit Agreement, comprised entirely of the term loan. The principal of the term loan is required to be repaid in quarterly installments of $750,000.

For additional information regarding the Credit Agreement, including interest rates, fees and maturities, see Note 8 – “Credit Agreement” of the condensed consolidated financial statements contained in this report.

Future Cash Requirements

For a discussion of our material estimated future cash requirements under our contractual obligations and commercial commitments, in total and disaggregated into current and long-term, see “Future Cash Requirements” included in Item 7, 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, 2023. There have been no material changes since December 31, 2023.

Adequacy of Resources

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

- the impacts of inflation, rising interest rates or a recession on our business;
- sales and marketing resources needed to further penetrate our market;
- expansion of our operations;
- response of competitors to our solutions and applications;
- costs associated with clinical research activities;
- increases in interest rates;
- labor shortages and wage inflation;
- component price inflation;
- costs to develop and implement new products; and
- use of capital for acquisitions or licenses, if any.

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

We believe our cash, cash equivalents and cash flows from operations will be sufficient to meet our working capital, capital expenditure, debt repayment and related interest, and other cash requirements for at least the next twelve months.

Inflation and changing prices did not have a material effect on our business during the quarter ended March 31, 2024, and we do not expect that inflation or changing prices will materially affect our business for at least the next twelve months.

Recent Accounting Pronouncements

Refer to Note 3 – "Summary of Significant Accounting Policies" of the condensed consolidated financial statements contained in this report for a description of recently issued accounting pronouncements that are applicable to our business.

Critical Accounting Estimates

Critical accounting estimates are those that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition and results of operations. For additional information, please see the discussion of our most critical accounting estimates under "Critical Accounting 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, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion on our market risks, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," included in our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no material changes since December 31, 2023.

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 March 31, 2024. 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 March 31, 2024, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the quarter ended March 31, 2024, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

Information pertaining to certain legal proceedings in which we are involved can be found in Note 9 – "Commitments and Contingencies" to our condensed consolidated financial statements included in Part I, Item 1 of this report and is incorporated herein by reference.

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, 2023, which could materially affect our business, financial condition or future results. There have been no material changes in our risk factors from those disclosed in that report.

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

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Trading Arrangements

During the quarter ended March 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K).

Item 6. Exhibits.

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index below.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Incorporated by Reference			Filed Herewith
		Form	Date of Filing	Exhibit Number	
3.1	Amended and Restated Certificate of Incorporation, as amended through May 9, 2019	8-K	05/09/2019	3.2	
3.2	Amended and Restated By-laws, effective December 19, 2022	10-K	02/21/2023	3.2	
10.1	Offer Letter between Sheri L. Dodd and Tactile Systems Technology, Inc., dated April 23, 2024	8-K	04/23/2024	10.1	
10.2	Form of Confidentiality, Assignment of Intellectual Property and Restrictive Covenants Agreement	8-K	04/23/2024	10.2	
10.3	Transition Letter Agreement between Daniel L. Reuvers and Tactile Systems Technology, Inc., dated April 23, 2024	8-K	04/23/2024	10.4	
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	Inline XBRL for the following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024: (i) Balance Sheets, (ii) Statements of Operations, (iii) Statements of Stockholders' Equity, (iv) Statements of Cash Flows, and (v) Notes to the Condensed Consolidated Financial Statements; and for the information set forth in Part II, Item 5.				X
104.1	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.1)				X

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: May 6, 2024

By: /s/ *Elaine M. Birkemeyer*
Elaine M. Birkemeyer
Chief Financial Officer
(Principal financial and accounting officer)

Exhibit 31.1

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, Daniel L. Reuvers, 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 internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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/ Daniel L. Reuvers
Daniel L. Reuvers
Chief Executive Officer

Date: May 6, 2024

Exhibit 31.2

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, Elaine M. Birkemeyer, 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 internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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/ Elaine M. Birkemeyer
Elaine M. Birkemeyer
Chief Financial Officer

Date: May 6, 2024

Exhibit 32.1

**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 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Daniel L. Reuvers, 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/ Daniel L. Reuvers

Daniel L. Reuvers

Chief Executive Officer

Date: May 6, 2024

Exhibit 32.2

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 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Elaine M. Birkemeyer, 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/ Elaine M. Birkemeyer
Elaine M. Birkemeyer
Chief Financial Officer

Date: May 6, 2024