Penumbra Inc
Form 10-Q
May 08, 2018

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o 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: 001-37557

Penumbra, Inc.
(Exact name of registrant as specified in its charter)

Delaware	05-0605598
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Penumbra Place Alameda, CA	94502
(Address of principal executive offices)	(Zip code)

(510) 748-3200
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
Emerging growth company	o		

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

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

As of April 24, 2018, the registrant had 34,262,844 shares of common stock, par value $0.001 per share, outstanding.

Table of Contents

Penumbra, Inc.
FORM 10-Q
TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

Penumbra, Inc.
Condensed Consolidated Balance Sheets
(unaudited)
(in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$52,805	$ 50,637
Marketable investments	162,636	163,954
Accounts receivable, net of doubtful accounts of $1,454 and $1,290 at March 31, 2018 and December 31, 2017, respectively	65,107	58,007
Inventories	94,616	94,901
Prepaid expenses and other current assets	12,774	14,735
Total current assets	387,938	382,234
Property and equipment, net	31,995	30,899
Intangible assets, net	28,241	23,778
Goodwill	8,414	8,178
Long-term investments	3,286	3,872
Deferred taxes	28,865	26,690
Other non-current assets	968	1,016
Total assets	$489,707	$ 476,667
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$7,403	$ 6,757
Accrued liabilities	42,850	44,825
Total current liabilities	50,253	51,582
Deferred rent	7,345	6,199
Other non-current liabilities	17,188	18,478
Total liabilities	74,786	76,259
Commitments and contingencies (Note 8)		
Stockholders’ equity:		
Common stock	34	33
Additional paid-in capital	404,299	396,810
Accumulated other comprehensive income	2,637	1,569
Retained earnings	7,951	1,996
Total stockholders’ equity	414,921	400,408
Total liabilities and stockholders’ equity	$489,707	$ 476,667

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

Penumbra, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
(unaudited)
(in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2018	2017
Revenue	$102,701	$73,213
Cost of revenue	36,144	25,504
Gross profit	66,557	47,709
Operating expenses:		
Research and development	8,013	7,034
Sales, general and administrative	54,499	42,721
Total operating expenses	62,512	49,755
Income (loss) from operations	4,045	(2,046)
Interest income, net	749	644
Other expense, net	(290)	(349)
Income (loss) before income taxes and equity in losses of unconsolidated investees	4,504	(1,751)
(Benefit from) provision for income taxes	(1,938)	1,355
Income (loss) before equity in losses of unconsolidated investees	6,442	(3,106)
Equity in losses of unconsolidated investees	(951)	—
Net income (loss)	5,491	(3,106)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments, net of tax	1,386	692
Net change in unrealized (losses) gains on available-for-sale securities, net of tax	(318)	70
Total other comprehensive income, net of tax	1,068	762
Comprehensive income (loss)	$6,559	$(2,344)
Net income (loss)	$5,491	$(3,106)
Net income (loss) per share:		
Basic	$0.16	$(0.10)
Diluted	$0.15	$(0.10)
Weighted average shares used to compute net income (loss) per share:		
Basic	33,846,142	31,611,841
Diluted	35,917,051	31,611,841

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

Penumbra, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Three Months Ended March 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$5,491	$(3,106)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,399	654
Amortization of premium on marketable investments	32	299
Stock-based compensation	4,154	4,012
Loss on non-marketable equity investments	951	—
Inventory write-downs	300	256
Deferred taxes	(2,209)	(1)
Change in fair value of contingent consideration	442	—
Other	357	114
Changes in operating assets and liabilities:		
Accounts receivable	(6,109)	(1,880)
Inventories	208	(6,057)
Prepaid expenses and other current and non-current assets	2,986	2,248
Accounts payable	622	889
Accrued expenses and other non-current liabilities	2,084	4,766
Net cash provided by operating activities	10,708	2,194
CASH FLOWS FROM INVESTING ACTIVITIES:		
Contributions towards non-marketable investments	(352)	—
Purchase of marketable investments	(42,552)	(44,777)
Proceeds from sales of marketable investments	—	22,975
Proceeds from maturities of marketable investments	43,540	15,020
Purchases of property and equipment	(2,823)	(3,194)
Net cash used in investing activities	(2,187)	(9,976)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock upon underwritten public offering, net of issuance cost	—	106,563
Proceeds from exercises of stock options	1,328	1,050
Payment of employee taxes related to vested restricted stock	(3,530)	(2,089)
Payment of acquisition-related obligations	(4,323)	—
Other	(219)	—
Net cash (used in) provided by financing activities	(6,744)	105,524
Effect of foreign exchange rate changes on cash and cash equivalents	391	109
Net Increase in Cash and Cash Equivalents and Restricted Cash	2,168	97,851
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period	50,637	13,236
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH—End of period	$52,805	$111,087
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Common shares issued as consideration in connection with a buyout agreement (Notes 6, 8 and 9)	$5,256	$—
Purchase of property and equipment funded through accounts payable and accrued liabilities	$427	$339
Issuance cost not yet paid	$—	$295

RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Cash and cash equivalents	$52,805	$109,383
Restricted cash	$—	$1,704
Total cash and cash equivalent and restricted cash - End of period	$52,805	$111,087

See accompanying notes to the unaudited condensed consolidated financial statements

Table of Contents

Penumbra, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

1. Organization and Description of Business

Penumbra, Inc. (the "Company") is a global healthcare company focused on innovative therapies. The Company designs, develops, manufactures and markets medical devices and has a broad portfolio of products that addresses challenging medical conditions and significant clinical needs.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying condensed consolidated balance sheet as of March 31, 2018, the condensed consolidated statements of operations and comprehensive income (loss) for the three months ended March 31, 2018 and 2017, and the condensed consolidated statements of cash flows for the three months ended March 31, 2018 and 2017 are unaudited. The unaudited condensed consolidated financial statements included herein have been prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and the applicable rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The condensed consolidated balance sheet as of December 31, 2017 was derived from the audited financial statements as of that date.

The unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to state fairly the Company's financial position as of March 31, 2018, the results of its operations for the three months ended March 31, 2018 and 2017, and the cash flows for the three months ended March 31, 2018 and 2017. The results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any other future annual or interim period. Certain changes in presentation were made in the condensed consolidated financial statements for the three months ended March 31, 2017 to conform to the presentation for the three months ended March 31, 2018, including the retrospective application of the Accounting Standards Update ("ASU") 2016-18 as discussed further below.

The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K. There have been no changes to the Company's significant accounting policies during the three months ended March 31, 2018, as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, other than changes to the Company's revenue policy described below in connection with the adoption of the guidance under the Accounting Standards Codification ("ASC") 606.

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity accounts; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to marketable investments, provisions for doubtful accounts, sales return reserve, warranty reserve, valuation of inventories, useful lives of property and equipment, income taxes, and contingencies, among others. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other data. Actual results could differ from those estimates.

Revenue Recognition

Revenue is comprised of product revenue net of returns, discounts, administration fees and sales rebates. The Company adopted the guidance under ASC 606 on January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. Therefore, the comparative prior year information has not been adjusted and continues to be reported under ASC 605 with the impact of the adoption reflected in opening retained earnings. Under ASC 606, the Company recognizes revenue when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Revenue from product sales continue to be recognized either on the date of shipment or the date of receipt by the customer, but is deferred for certain transactions when control has not yet transferred. However, with respect to products that the Company consigns to hospitals, which primarily consist of coils, the Company recognizes revenue at the time hospitals utilize products in a procedure.

Deferred revenue represents amounts that the Company has already invoiced its customers and that are ultimately expected to be recognized as revenue, but for which not all revenue recognition criteria have been met. As of March 31, 2018 and December 31, 2017, respectively, the Company's deferred revenue balance was not material.

Revenue is recorded at the net sales price, which includes estimates of variable consideration such as return provision, product returns, rebates, discounts, and other adjustments to net revenue. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price. Variable consideration is included in revenue only to the extent that it is probable that a significant reversal of the revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Company’s terms and conditions permit product returns and exchanges. The Company bases its estimates for sales returns on actual historical returns over the prior three years and they are recorded as reductions in revenue at the time of sale. Upon recognition, the Company reduces revenue and cost of revenue for the estimated return. Return rates can fluctuate over time, but are sufficiently predictable to allow the Company to estimate expected future product returns. For more information and disclosures on the Company’s revenue, refer to Note “13. Revenues.”

Segments

The Company determined its operating segment on the same basis that it uses to evaluate its performance internally. The Company has one business activity: the design, development, manufacturing and marketing of innovative devices, and operates as one operating segment. The Company’s chief operating decision-maker, its Chief Executive Officer, reviews its operating results for the purpose of allocating resources and evaluating financial performance. The Company assigns revenue to a geographic area based on the destination to which it ships its products.

Recent Accounting Guidance

Recently Adopted Accounting Standards

In the first quarter of 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and its associated amendments. Under the standard, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company applied the five step method outlined in the ASU to all revenue streams and elected to utilize the modified retrospective implementation method. The additional disclosures required by the ASU have been included in Note “13. Revenues.”

In the first quarter of 2018, the Company adopted ASU No. 2016-18, Statement of Cash Flows: Restricted Cash, a consensus of the Financial Accounting Standards Board (“FASB”) Emerging Issues Task Force. Under the standard, restricted cash and restricted cash equivalent amounts are presented within cash and cash equivalents when reconciling the total beginning and ending amounts shown on the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet is required. The impact of the adoption of ASU No. 2016-18 resulted in a decrease in investing activities and an increase in the ending cash and cash equivalents of $1.7 million in the statement of cash flows for the three months ended March 31, 2017.

In the first quarter of 2018, the Company adopted ASU No. 2017-09, Compensation - Stock Compensation - Scope of Modification Accounting. The standard provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This standard does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The guidance was adopted on a prospective basis in the first quarter of 2018 and did not have any impact upon adoption.

Table of Contents
Penumbra, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

In the first quarter of 2018, the Company adopted ASU No. 2018-02, Income Statement - Reporting Comprehensive Income. The standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Reform Act"). The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company elected to early adopt this standard on a prospective basis in the first quarter of 2018 and reclassify the stranded tax effects resulting from the Tax Reform Act from accumulated other comprehensive income to retained earnings. There were no additional income tax effects resulting from the Tax Reform Act reclassified from accumulated comprehensive income to retained earnings. The adoption did not have a material impact on the Company's financial position.
In the first quarter of 2018, the Company adopted ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which included amendments to expand income tax accounting and disclosure guidance pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118") issued by the SEC in December 2017. SAB 118 provides guidance on accounting for the income tax effects of the Tax Reform Act. Refer to Note "11. Income Taxes" for more information and disclosures related to this amended guidance.

Recently Issued Accounting Standards
In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases, which amends the existing accounting standards for leases. In September 2017, the FASB issued ASU No. 2017-13 which provides additional clarification and implementation guidance on the previously issued ASU No. 2016-02. Under the new guidance, a lessee will be required to recognize a lease liability and right-of-use asset for all leases with terms in excess of twelve months. The new guidance also modifies the classification criteria and accounting for sales-type and direct financing leases, and requires additional disclosures to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. Consistent with current guidance, a lessee's recognition, measurement, and presentation of expenses and cash flows arising from a lease will continue to depend primarily on its classification. The accounting standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and must be applied using a modified retrospective approach. Early adoption is permitted. While the Company is continuing to assess all potential impacts of the standard, it expects that most of its lease commitments will be subject to the updated standard and recognized as lease liabilities and right-of-use assets upon adoption.
In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses. The standard changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The Company will recognize an allowance for credit losses on available-for-sale securities rather than deductions in amortized cost. The standard is effective for fiscal years and interim periods beginning after December 15, 2019. Early adoption is permitted for all periods beginning after December 15, 2018. The Company is currently evaluating the impact of adopting this standard.
3. Investments and Fair Value of Financial Instruments
Marketable Investments
The Company's marketable investments have been classified and accounted for as available-for-sale. The Company's marketable investments as of March 31, 2018 and December 31, 2017 were as follows (in thousands):

	March 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$17,904	$ —	$ (11)	$17,893
U.S. treasury	6,402	—	(44)	6,358
U.S. agency and government sponsored securities	6,214	—	(34)	6,180

U.S. states and municipalities	13,487	—	(29)	13,458
Corporate bonds	119,350	23	(626)	118,747
Total	$163,357	$ 23	$ (744)	$162,636

Table of Contents
Penumbra, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$19,941	$ —	$ (8)	$19,933
U.S. treasury	6,402	—	(28)	6,374
U.S. agency and government sponsored securities	4,787	—	(18)	4,769
U.S. states and municipalities	12,510	—	(23)	12,487
Corporate bonds	120,648	23	(280)	120,391
Total	$164,288	$ 23	$ (357)	$163,954

The following tables present the gross unrealized losses and the fair value for those marketable investments that were in an unrealized loss position for less than twelve months or more than twelve months as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Commercial paper	$17,893	$ (11)	$—	$ —	$17,893	$ (11)
U.S. treasury	6,358	(44)	—	—	6,358	(44)
U.S. agency and government sponsored securities	4,187	(27)	1,993	(7)	6,180	(34)
U.S. states and municipalities	10,456	(29)	—	—	10,456	(29)
Corporate bonds	92,341	(478)	9,397	(148)	101,738	(626)
Total	$131,235	$ (589)	$11,390	$ (155)	$142,625	$ (744)

	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Commercial paper	$19,933	$ (8)	$—	$ —	$19,933	$ (8)
U.S. treasury	6,374	(28)	—	—	6,374	(28)
U.S. agency and government sponsored securities	2,778	(9)	1,991	(9)	4,769	(18)
U.S. states and municipalities	10,092	(23)	—	—	10,092	(23)
Corporate bonds	93,284	(188)	10,201	(92)	103,485	(280)
Total	$132,461	$ (256)	$12,192	$ (101)	$144,653	$ (357)

The contractual maturities of the Company's marketable investments as of March 31, 2018 and December 31, 2017 were as follows (in thousands):

	March 31, 2018 Fair Value	December 31, 2017 Fair Value
Due in less than one year	$141,262	$104,272
Due in one to five years	21,374	59,682
Total	$162,636	$163,954

Non-Marketable Equity Investments

During the second quarter of 2017, the Company and Sixense Enterprises, Inc. formed a privately-held company, MVI Health Inc. ("MVI"), with each party holding 50% of the issued and outstanding equity of MVI. Pursuant to agreements between the parties at the time of MVI's formation, the Company will be obligated to perform certain services or make additional cash contributions to MVI for no additional equity interest. These services include, but are not limited to, information technology, accounting, other administrative services and research and development. The Company's contributions are presented as a component of "Contributions towards non-marketable investments" in the statement of cash flows.

The Company accounted for its investment under the equity method and is not required to consolidate MVI under the voting model. As of March 31, 2018, the Company determined that MVI was not a variable interest entity ("VIE"). The Company will reassess in subsequent periods whether MVI becomes a VIE due to changes in facts and circumstances, including changes to the sufficiency of the equity investment at risk, management and governance structure or capital structure.

As of March 31, 2018 and December 31, 2017, the carrying value of the non-marketable equity investment was approximately \$3.3 million and \$3.9 million, respectively, representing the Company's contributions to MVI offset by the Company's share of equity method investee losses. The non-marketable equity method investment is presented in long-term investments on the condensed consolidated balance sheet. During the three months ended March 31, 2018, MVI had no revenue and recorded a net loss of \$1.9 million. The Company reflected its 50% share of investee losses for the three months ended March 31, 2018, of \$1.0 million, in equity in losses of unconsolidated investees in the condensed consolidated statements of operations and comprehensive income (loss). The Company held no non-marketable equity investments as of March 31, 2017.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company classifies its cash equivalents and marketable investments within Level 1 and Level 2, as it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs.

The Company determined the fair value of its Level 1 financial instruments, which are traded in active markets, using quoted market prices for identical instruments.

Financial instruments classified within Level 2 of the fair value hierarchy are valued based on other observable inputs, including broker or dealer quotations or alternative pricing sources. When quoted prices in active markets for identical assets or liabilities are not available, the Company relies on non-binding quotes from its investment managers, which are based on proprietary valuation models of independent pricing services. These models generally use inputs such as observable market data, quoted market prices for similar instruments, or historical pricing trends of a security relative to its peers. To validate the fair value determination provided by its investment managers, the Company reviews the pricing movement in the context of overall market trends and trading information from its investment managers. In addition, the Company assesses the inputs and methods used in determining the fair value in order to determine the classification of securities in the fair value hierarchy.

Table of Contents
Penumbra, Inc.
Notes to Condensed Consolidated Financial Statements
(unaudited)

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy (in thousands):

As of March 31, 2018