

NEVRO CORP  
Form 10-Q  
May 11, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 31, 2015**

**or**

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

**Commission File Number: 001-36715**

**Nevro Corp.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**56-2568057**  
**(I.R.S. Employer**  
**Identification No.)**

**4040 Campbell Avenue**  
**Menlo Park, CA**  
**(Address of principal executive offices)**

**94025**  
**(Zip Code)**

**(650) 251-0005**  
**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of April 30, 2015 there were 24,897,647 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

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**Nevro Corp.**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****Nevro Corp.****Condensed Consolidated Balance Sheets****(unaudited)****(in thousands, except share and per share data)**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 21,984	\$ 25,287
Short-term investments	137,232	151,521
Accounts receivable, net of allowance for doubtful accounts of \$10 and \$10 at March 31, 2015 and December 31, 2014, respectively	7,314	6,610
Inventories, net	18,236	14,856
Prepaid expenses and other current assets	3,026	2,851
Total current assets	187,792	201,125
Property and equipment, net	1,189	647
Other assets	2,333	424
Restricted cash	906	300
Total assets	\$ 192,220	\$ 202,496
<b>Liabilities and stockholders equity</b>		
Current liabilities		
Accounts payable	\$ 8,151	\$ 4,460
Accrued liabilities	5,218	6,268
Other current liabilities	60	70
Total current liabilities	13,429	10,798
Notes payable	19,569	19,511
Other long-term liabilities	104	117
Total liabilities	33,102	30,426

## Commitments and contingencies (Note 5)

## Stockholders' equity

Preferred stock, \$0.001 par value, 10,000,000 shares authorized at March 31, 2015 and December 31, 2014; zero shares issued and outstanding at March 31, 2015 and December 31, 2014

Common stock, \$0.001 par value, 290,000,000 shares authorized at March 31, 2015 and December 31, 2014; 24,896,511 and 24,865,491 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively

	25	25
Additional paid-in capital	295,255	293,945
Accumulated other comprehensive income (loss)	(125)	77
Accumulated deficit	(136,037)	(121,977)

Total stockholders' equity	159,118	172,070
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Total liabilities and stockholders' equity	\$ 192,220	\$ 202,496
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The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****Nevro Corp.****Condensed Consolidated Statements of Operations and Comprehensive Loss****(unaudited)****(in thousands, except share and per share data)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
Revenue	\$ 9,662	\$ 6,664
Cost of revenue	3,873	2,999
Gross profit	5,789	3,665
Operating expenses		
Research and development	4,998	4,696
Sales, general and administrative	13,130	6,210
Total operating expenses	18,128	10,906
Loss from operations	(12,339)	(7,241)
Interest income	104	40
Interest expense	(673)	
Other income (expense), net	(1,010)	238
Loss before income taxes	(13,918)	(6,963)
Provision for income taxes	142	93
Net loss	(14,060)	(7,056)
Accretion of redeemable convertible preferred stock to redemption value		(43)
Net loss attributable to common stockholders	(14,060)	(7,099)
Other comprehensive income (loss):		
Changes in foreign currency translation adjustment	(123)	
Changes in gains (losses) on short-term investments, net	(79)	(13)
Net change in other comprehensive loss	(202)	(13)
Comprehensive loss	\$ (14,262)	\$ (7,112)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.57)	\$ (6.60)

Weighted average number of common shares used to compute basic and diluted net loss per share	24,849,229	1,075,932
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The accompanying notes are an integral part of these condensed consolidated financial statements.



**Table of Contents****Nevro Corp.****Condensed Consolidated Statements of Cash Flows****(unaudited)****(in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (14,060)	\$ (7,056)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	46	16
Stock-based compensation expense	1,218	405
Amortization (accretion) of premium (discount) on short-term investments	(71)	102
Write down of inventory	264	24
Non-cash interest expense	58	
Changes in operating assets and liabilities		
Accounts receivable	(704)	80
Inventories	(3,644)	8
Prepaid expenses and other current assets	(175)	(796)
Other assets	(1,909)	(23)
Accounts payable	3,496	133
Accrued liabilities	(1,335)	(968)
Other long-term liabilities	(13)	(25)
<b>Net cash used in operating activities</b>	<b>(16,829)</b>	<b>(8,100)</b>
<b>Cash flows from investing activities</b>		
Purchases of short-term investments	(3,741)	(11,939)
Proceeds from maturity of short-term investments	18,022	23,121
Restricted cash	(606)	
Purchases of property and equipment	(228)	(109)
<b>Net cash provided by investing activities</b>	<b>13,447</b>	<b>11,073</b>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock	79	29
<b>Net cash provided by financing activities</b>	<b>79</b>	<b>29</b>

Net increase (decrease) in cash and cash equivalents	(3,303)	3,002
<b>Cash and cash equivalents</b>		
Cash and cash equivalents at beginning of period	25,287	12,409
Cash and cash equivalents at end of period	\$ 21,984	\$ 15,411
<b>Significant non-cash transactions</b>		
Property and equipment in accounts payable	\$ 360	\$ 33
Vesting of early-exercised stock options	\$ 13	\$ 114

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

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**Notes to Condensed Consolidated Financial Statements**

**(unaudited)**

**1. Formation and Business of the Company**

The Company was incorporated in Minnesota on March 10, 2006 to manufacture and market innovative active implantable medical devices for the treatment of neurological disorders initially focusing on the treatment of chronic pain. Subsequently, the Company was reincorporated in Delaware on October 4, 2006 and relocated to California.

Since inception, the Company has incurred net losses and negative cash flows from operations. During the year ended December 31, 2014, the Company incurred a net loss of \$30.7 million and used \$31.1 million of cash in operations. For the three months ended March 31, 2015, the Company incurred a net loss of \$14.1 million and used \$16.8 million of cash in operations. At March 31, 2015 and December 31, 2014, the Company had an accumulated deficit of \$136.0 million and \$122.0 million, respectively, and does not expect to experience positive cash flows in the near future. The Company has financed operations to date primarily through private placements of equity securities, the issuance of common stock in the initial public offering (IPO) completed in November 2014 and borrowings under a debt agreement. On May 8, 2015, the Company's Senza spinal cord stimulation product was approved for commercialization in the United States by the U.S. Food and Drug Administration (FDA). The Company's ability to continue to meet its obligations and to achieve its business objectives is dependent upon, amongst other things, commercializing its products in the United States, generating sufficient revenues and its ability to continue to control expenses, if necessary, to meet its obligations as they become due for the foreseeable future. Failure to increase sales of its products, manage discretionary expenditures or raise additional financing, as required, may adversely impact the Company's ability to achieve its intended business objectives.

The accompanying interim condensed consolidated financial statements as of March 31, 2015 and for the three months ended March 31, 2015 and 2014, and the related interim information contained within the notes to the financial statements, are unaudited. The unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and on the same basis as the audited financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements contain all adjustments which include only normal recurring adjustments necessary to state fairly the Company's financial position as of March 31, 2015, and the results of its operations and cash flows for the three months ended March 31, 2015 and 2014. Such adjustments are of a normal and recurring nature. The results for the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015, or for any future period.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2014 included in the Company's Annual Report filed on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 18, 2015.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The condensed consolidated financial statements include the Company's accounts and those of its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated.

### **Segments**

The chief operating decision maker for the Company is the Chief Executive Officer. The Chief Executive Officer reviews financial information presented on a consolidated basis, accompanied by information about revenue by geographic region, for purposes of allocating resources and evaluating financial performance. The Company has one business activity and there are no segment managers who are held accountable for operations, operating results or plans for levels or components below the consolidated unit level. Accordingly, the Company has determined that it has a single reportable and operating segment structure. The Company and its Chief Executive Officer evaluate performance based primarily on revenue in the geographic locations in which the Company operates.

The Company derives all of its revenues from sales to customers in Australia and Europe, and has not yet begun to sell its products in the United States. Revenue by geography is based on the billing address of the customer. The following table sets forth countries with revenue accounting for more than 10% of the total revenue during the periods presented:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Australia	27%	27%
United Kingdom	22%	15%
Germany	18%	15%
Netherlands	7%	14%

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Long-lived assets and operating income outside the United States are not material; therefore, disclosures have been limited to revenue.

### **Foreign Currency Translation**

The Company's consolidated financial statements are prepared in U.S. dollars (USD). Its foreign subsidiaries use their local currency as their functional currency and maintain their records in the local currency. Accordingly, the assets and liabilities of these subsidiaries are translated into USD using the current exchange rates in effect at the balance sheet date and equity accounts are translated into USD using historical rates. Revenues and expenses are translated using the monthly average exchange rates during the period when the transaction occurs. The resulting foreign currency translation adjustments from this process are recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets. Unrealized foreign exchange gains and losses from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of the reporting entity are recorded in Other income (expense), net. The Company recorded net unrealized foreign currency transaction gain (loss) of \$(0.5) million and \$0.2 million during the three months ended March 31, 2015 and 2014, respectively. Additionally, realized gains and losses resulting from transactions denominated in currencies other than the local currency are recorded in Other income (expense), net in the consolidated statements of operations. The Company recorded realized foreign currency transaction gain (loss) of \$(0.5) million, and \$61,000, during the three months ended March 31, 2015 and 2014, respectively.

As the Company's international operations grow, its risks associated with fluctuation in currency rates will become greater, and the Company will continue to reassess its approach to managing this risk. In addition, currency fluctuations or a weakening USD can increase the costs of the Company's international expansion. To date, the Company has not entered into any foreign currency hedging contracts. Based on its current international structure, the Company does not plan on engaging in hedging activities in the near future.

### **Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Significant accounting estimates and management judgments reflected in the condensed consolidated financial statements include items such as allowances for doubtful accounts; clinical accruals; stock-based compensation; depreciation and amortization periods; inventory valuation; valuation of investments and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions believed to be reasonable by the management. Actual results may differ from those estimates under different assumptions or conditions.

### **Concentration of Credit Risk and Other Risks and Uncertainties**

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and investments. The majority of the Company's cash is held by one financial institution in the United States of America in excess of federally insured limits. The Company maintained investments in money market funds that were not federally insured during the periods ended March 31, 2015 and December 31, 2014 and held cash in foreign banks of approximately \$5.1 million at March 31, 2015 and \$4.3 million at December 31, 2014 that was not federally insured. The Company has not experienced any losses on its deposits of cash and cash equivalents.

All of the Company's revenue has been derived from sales of its products in international markets, principally Australia and Europe. In the international markets in which the Company participates, the Company uses both a direct

sales force and distributors to sell its products. The Company performs ongoing credit evaluations of its direct customers and distributors, does not require collateral and maintains allowances for potential credit losses on customer accounts when deemed necessary.

During the three-month period ended March 31, 2015, no customers accounted for more than 10% of the Company's revenue, and during the three-month period ended March 31, 2014, one customer accounted for 14% of the Company's revenue. As of March 31, 2015, one customer accounted for 12% of the accounts receivable balance. As of December 31, 2014, no customer accounted for more than 10% of the Company's accounts receivable balance.

The Company is subject to risks common to early-stage medical device companies, including, but not limited to, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, product liability, manufacturing quality and scaling, uncertainty of market acceptance of products and the need to obtain additional financing. The Company is dependent on third-party manufacturers and suppliers, in some cases sole- or single-source suppliers.

There can be no assurance that the Company's products or services will continue to be accepted in its existing marketplaces or gain acceptance in the U.S. marketplace, nor can there be any assurance that any future products or services can be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products or services will be successfully marketed, if at all.



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The Company expects to incur substantial operating losses for the next several years and will need to obtain additional financing in order to launch and commercialize any products or product candidates for which it receives regulatory approval. There can be no assurance that such financing will be available or will be at terms acceptable by the Company.

## **Fair Value of Financial Instruments**

The carrying amounts of certain of the Company's financial instruments, including cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to their relatively short maturities.

## **Cash and Cash Equivalents**

The Company considers all highly-liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents include money market funds in the amount of \$10.0 million and \$10.6 million as of March 31, 2015 and December 31, 2014, respectively. At March 31, 2015 and December 31, 2014, the Company's cash equivalents were held in institutions in the United States and include deposits in a money market fund which was unrestricted as to withdrawal or use.

## **Restricted Cash**

Restricted cash of \$0.3 million as of December 31, 2014 represents a certificate of deposit collateralizing payment of charges related to the Company's corporate credit cards. Restricted cash as of March 31, 2015 represents \$0.3 million of a certificate of deposit collateralizing payment of charges related to the Company's credit cards and also includes \$0.6 million representing collateral for a letter of credit related to the Company's lease entered into in March 2015.

## **Investment Securities**

The Company classifies its investment securities as available-for-sale. Those investments with maturities of less than 12 months at the date of purchase are considered short-term investments. Those investments with maturities greater than 12 months at the date of purchase are considered long-term investments. The Company's investment securities classified as available-for-sale are recorded at fair value based upon quoted market prices at period end. Unrealized gains and losses, deemed temporary in nature, are reported as a separate component of comprehensive income (loss).

A decline in the fair value of any security below cost that is deemed other than temporary results in a charge to earnings and the corresponding establishment of a new cost basis for the security. Premiums (discounts) are amortized (accreted) over the life of the related security as an adjustment to yield using the straight-line interest method. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

## **Inventories**

Inventories are stated at the lower of cost to purchase or manufacture the inventory or the market value of such inventory. Cost is determined using the standard cost method which approximates the first-in, first-out basis. Market value is determined as the lower of replacement cost or net realizable value. The Company regularly reviews inventory quantities in consideration of actual loss experiences, projected future demand and remaining shelf life to record a provision for excess and obsolete inventory when appropriate.

The Company's policy is to write down inventory that has become obsolete, inventory that has a cost basis in excess of its expected net realizable value and inventory in excess of expected requirements. The estimate of excess quantities is subjective and primarily dependent on the Company's estimates of future demand for a particular product. If the estimate of future demand is inaccurate based on actual sales, the Company may increase the write down for excess inventory for that component and record a charge to inventory impairment in the accompanying consolidated statements of operations and comprehensive loss. The Company periodically evaluates the carrying value of inventory on hand for potential excess amounts over demand using the same lower of cost or market approach as that has been used to value the inventory. The Company also periodically evaluates inventory quantities in consideration of actual loss experience. As a result of these evaluations, the Company recognized a total write down for Senza inventories of \$0.3 million and \$24,000 for the three months ended March 31, 2015 and 2014, respectively. The Company's estimation of the future demand for a particular component of the Senza product may vary and may result in changes in estimates in any particular period.

### **Shipping and Handling Costs**

Shipping and handling costs are expensed as incurred and are included in cost of revenue.

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### **Revenue Recognition**

The Company recognizes revenue when all of the following criteria are met:

persuasive evidence of an arrangement exists;

the sales price is fixed or determinable;

collection of the relevant receivable is probable at the time of sale; and

delivery has occurred or services have been rendered.

For a majority of sales, where the Company's sales representative delivers its product at the point of implantation at hospitals or medical facilities, the Company recognizes revenue upon completion of the procedure and authorization, which represents satisfaction of the required revenue recognition criteria. For the remaining sales, which are sent from the Company's distribution centers directly to hospitals and medical facilities, as well as distributor sales, where product is ordered in advance of an implantation procedure and a valid purchase order has been received, the Company recognizes revenue at the time of shipment of the product, which represents the point in time when the customer has taken ownership and assumed the risk of loss and the required revenue recognition criteria are satisfied. The Company's customers are obligated to pay within specified terms regardless of when or if they ever sell or use the products. The Company does not offer rights of return or price protection and it has no post-delivery obligations.

The Company has a limited one-year warranty to most customers in the international markets in which it operates. Warranty terms may vary once the Company has commercialized in the United States. Estimated warranty obligations are recorded at the time of sale and to date, warranty costs have been insignificant.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is computed using the straight-line method over the assets' estimated useful lives of three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease. Upon retirement or sale, the cost and related accumulated depreciation are removed from the consolidated balance sheet and the resulting gain or loss, if any, is reflected in operations. Maintenance and repairs are charged to operations as incurred.

### **Impairment of Long-Lived Assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. When such an event occurs, management determines whether there has been impairment by comparing the anticipated undiscounted future net cash flows to the related asset group's carrying value. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised value, depending on the nature of the asset. There were no impairment charges or changes in estimated useful lives recorded through March 31, 2015.

## **Income Taxes**

The Company prepares quarterly estimates of its tax provision using a discrete approach. Additionally, the Company records income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's condensed consolidated financial statements or income tax returns. In estimating future tax consequences, expected future events other than enactments or changes in the tax law or rates are considered. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized.

The Company operates in various tax jurisdictions and is subject to audit by various tax authorities. To date, all of the Company's revenues have been derived outside of the United States, and the taxes paid have been predominantly due to income taxes in foreign jurisdictions in which the Company conducts business. The Company provides for tax contingencies whenever it is deemed probable that a tax asset has been impaired or a tax liability has been incurred for events such as tax claims or changes in tax laws. Tax contingencies are based upon their technical merits, relative tax law, and the specific facts and circumstances as of each reporting period. Changes in facts and circumstances could result in material changes to the amounts recorded for such tax contingencies.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) a determination is made as to whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority.

**Comprehensive Income (Loss)**

Comprehensive income (loss) represents all changes in the stockholders' equity except those resulting from and distributions to stockholders. The Company's unrealized gains and losses on short-term available-for-sale investment securities and foreign currency translation adjustments represent the components of other comprehensive income (loss) that are excluded from the reported net loss and have been presented in the consolidated statements of operations and comprehensive loss.

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### **Research and Development**

Research and development (R&D), costs, including new product development, regulatory compliance and clinical research, are charged to operations as incurred in the consolidated statements of operations and comprehensive loss. Such costs include personnel-related costs, including stock-based compensation, supplies, services, depreciation, allocated facilities and information services, clinical trial and related clinical manufacturing expenses, fees paid to investigative sites and other indirect costs.

### **Stock-Based Compensation**

The Company accounts for stock-based compensation arrangements with employees in accordance with ASC 718, *Stock Based Compensation*. ASC 718 requires the recognition of compensation expense, using a fair value-based method, for costs related to all share-based payments including stock options.

The Company's determination of the fair value of stock options on the date of grant utilizes the Black-Scholes option-pricing model and is impacted by its common stock price as well as changes in assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, expected term that options will remain outstanding, expected common stock price volatility over the term of the option awards, risk-free interest rates and expected dividends.

The fair value is recognized over the period during which an optionee is required to provide services in exchange for the option award, known as the requisite service period (usually the vesting period) on a straight-line basis. Stock-based compensation expense recognized at fair value includes the impact of estimated forfeitures. The Company estimates future forfeitures at the date of grant and revises the estimates, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Equity instruments issued to non-employees are recorded at their fair value on the measurement date and are subject to periodic adjustments as the underlying equity instruments vest. The fair value of options granted to consultants is expensed when vested. The non-employee stock-based compensation expense was not material for all periods presented.

Estimating the fair value of equity-settled awards as of the grant date using valuation models, such as the Black-Scholes option pricing model, is affected by assumptions regarding a number of complex variables. Changes in the assumptions can materially affect the fair value and ultimately how much stock-based compensation expense is recognized. These inputs are subjective and generally require significant analysis and judgment to develop. For all stock options granted to date, the Company estimated the volatility data based on a study of publicly traded industry peer companies. For purposes of identifying these peer companies, the Company considered the industry, stage of development, size and financial leverage of potential comparable companies. The risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues similar in duration to the expected term of the equity-settled award.

The Company recognizes a benefit from stock-based compensation as additional paid-in capital if an incremental tax benefit is realized by following the with-and-without approach. In addition, the company has also elected to ignore the indirect tax effects of stock-based compensation deductions for financial and accounting reporting purposes.

### **Net Loss per Share of Common Stock**

Basic net loss per common share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period, without consideration for potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and potentially dilutive securities outstanding for the period. For purposes of the diluted net loss per share calculation, the Company's redeemable convertible preferred stock and convertible preferred stock and common stock options are considered to be potentially dilutive securities. Because the Company has reported a net loss in all periods presented, diluted net loss per common share is the same as basic net loss per common share for those periods.

### **Recent Accounting Pronouncements**

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. ASU 2015-03 applies to all business entities and is effective for public business entities for annual periods, and