Penumbra Inc
Form 10-Q
November 03, 2016

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 September 30, 2016
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 or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o	Accelerated Filer o
Non-accelerated filer x (Do not check if a smaller reporting Company)	Smaller Reporting Company 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 October 15, 2016, the registrant had 31,643,863 shares of common stock, par value $0.001 per share, outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 15,856	$ 19,547
Marketable investments	125,975	129,257
Accounts receivable, net of doubtful accounts of $631 and $589 at September 30, 2016 and December 31, 2015, respectively	36,635	29,444
Inventories	70,092	56,761
Prepaid expenses and other current assets	18,665	9,352
Total current assets	267,223	244,361
Property and equipment, net	16,224	8,951
Deferred taxes	13,394	10,143
Other non-current assets	438	393
Total assets	$ 297,279	$ 263,848
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 3,584	$ 2,567
Accrued liabilities	33,760	25,581
Total current liabilities	37,344	28,148
Other non-current liabilities	6,081	3,178
Total liabilities	43,425	31,326
Commitments and contingencies (Note 5)		
Stockholders' Equity:		
Common stock	31	30
Additional paid-in capital	275,031	252,087
Notes receivable from stockholder(s)	—	(5)
Accumulated other comprehensive loss	(3,592)	(2,115)
Accumulated deficit	(17,616)	(17,475)
Total stockholders' equity	253,854	232,522
Total liabilities and stockholders' equity	$ 297,279	$ 263,848

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$67,187	$ 50,416	$190,212	$131,679
Cost of revenue	24,313	16,919	65,963	44,079
Gross profit	42,874	33,497	124,249	87,600
Operating expenses:				
Research and development	6,497	4,560	17,762	12,543
Sales, general and administrative	37,740	26,755	106,685	72,698
Total operating expenses	44,237	31,315	124,447	85,241
(Loss) Income from operations	(1,363)	2,182	(198)	2,359
Interest income, net	631	17	1,700	402
Other expense, net	(360)	(115)	(856)	(613)
(Loss) Income before provision for income taxes	(1,092)	2,084	646	2,148
Provision for income taxes	14	1,183	787	1,416
Net (loss) income	(1,106)	901	(141)	732
Foreign currency translation adjustments, net of tax	(898)	(303)	(1,731)	(892)
Unrealized (losses) gains on available-for-sale securities, net of tax	(115)	—	254	220
Comprehensive (loss) income	$(2,119)	$ 598	$(1,618)	$60
Net (loss) income attributable to common stockholders (Note 9)	$(1,106)	$ 276	$(141)	$175
Net (loss) income per share attributable to common stockholders —Basic	$(0.04)	$ 0.04	$0.00	$0.03
—Diluted	$(0.04)	$ 0.03	$0.00	$0.02
Weighted average shares used to compute net (loss) income per share attributable to common stockholders —Basic	30,604,384	7,853,730	30,269,463	5,962,031
—Diluted	30,604,384	10,189,248	30,269,463	8,494,651

See accompanying notes to the unaudited condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(141)	$732
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	1,809	1,227
Amortization of premium on marketable investments	733	—
Stock-based compensation	10,800	5,126
Excess tax benefit from stock-based compensation	(7,601)	(1,257)
Provision for (release of) doubtful accounts	152	(108)
Inventory write downs	1,190	704
Write off of note receivable	—	91
Loss on disposal of property and equipment	59	12
Realized (gain) loss on marketable investments	(3)	541
Deferred taxes	(143)	—
Changes in operating assets and liabilities:		
Accounts receivable	(7,088)	(7,383)
Inventories	(14,018)	(18,012)
Prepaid expenses and other current and non-current assets	(5,543)	(1,706)
Accounts payable	947	1,501
Accrued expenses and other non-current liabilities	8,796	5,901
Net cash used in operating activities	(10,051)	(12,631)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of marketable investments	(45,027)	(4,069)
Proceeds from sales of marketable investments	2,504	52,160
Proceeds from maturities of marketable investments	46,081	—
Purchases of property and equipment	(7,078)	(4,507)
Net cash (used in) provided by investing activities	(3,520)	43,584
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock issued in initial public offering, net of issuance costs	—	125,916
Proceeds from exercises of stock options	2,893	546
Proceeds from issuance of stock under employee stock purchase plan	3,783	—
Excess tax benefit from stock-based compensation	7,601	1,257
Payment of employee taxes related to vested restricted stock	(2,024)	(2,525)
Net cash provided by financing activities	12,253	125,194
Effect of foreign exchange rate changes on cash and cash equivalents	(2,373)	(339)
Net Increase (Decrease) In Cash And Cash Equivalents	(3,691)	155,808
CASH AND CASH EQUIVALENTS—Beginning of period	19,547	3,290
CASH AND CASH EQUIVALENTS—End of period	$15,856	$159,098
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchase of property and equipment funded through accounts payable and accrued liabilities	$2,197	$200
Deferred issuance costs not yet paid	$—	$1,149
Conversion of convertible preferred stock into common stock	$—	$111,467

See accompanying notes to the unaudited condensed consolidated financial statements

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

1. Organization and Description of Business

Penumbra, Inc. (the "Company") is a global interventional therapies company that designs, develops, manufactures and markets innovative medical devices. The Company has a broad portfolio of products that addresses challenging medical conditions and significant clinical needs across two major markets, neuro and peripheral vascular. The conditions that the Company's products address include, among others, ischemic stroke, hemorrhagic stroke and various peripheral vascular conditions that can be treated through thrombectomy and embolization procedures.

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying condensed consolidated balance sheet as of September 30, 2016, the condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2016 and 2015 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, 2015 was derived from the audited financial statements as of that date, but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

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 September 30, 2016, the results of its operations for the three and nine months ended September 30, 2016 and 2015, and the cash flows for the nine months ended September 30, 2016 and 2015. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 or for any other future annual or interim period. Certain changes in presentation were made in the condensed consolidated financial statements for the nine months ended September 30, 2015, to conform to the presentation for the nine month periods ended September 30, 2016.

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, 2015 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 nine months ended September 30, 2016, 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, 2015.

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 reserves, 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.

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 medical 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 determines revenue by geographic area, based on the destination to which it ships its products.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which outlines a comprehensive new revenue recognition model designed to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers—Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which further clarifies the implementation guidance on principal versus agent considerations contained in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers—Identifying Performance Obligations and Licensing, which further clarifies the implementation guidance relating to identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers—Narrow-Scope improvements and Practical Expedients, which further clarifies the implementation on narrow scope improvements and practical expedients. These standards will be effective for the Company in the first quarter of 2018 pursuant to ASU No. 2015-14, Revenue from Contracts with Customers-Deferral of the Effective Date, issued by the FASB in August 2015. The Company is currently evaluating the impact of adopting these standards.

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which requires an entity to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The accounting standard is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of adopting this standard.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The new standard is effective for annual periods and interim periods beginning after December 15, 2017 and, upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this standard.

In February 2016, the FASB issued ASU 2016-02, Leases, which amends the existing accounting standards for leases. 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. The Company is currently evaluating the impact of adopting this standard.

In March 2016, the FASB issued ASU No. 2016-09, Stock Compensation—Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The accounting standard is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods. Early adoption is permitted in any interim or annual period. The Company is currently evaluating the impact of adopting this standard.

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.

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In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows. The standard clarifies the way certain cash receipts and cash payments are classified with the objective of reducing the existing diversity in practice. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted for all periods beginning after December 15, 2016. The Company is currently evaluating the impact of adopting this standard.

3. 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.

Marketable investments 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, historical pricing trends of a security relative to its peers and internal assumptions of the independent pricing services. 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.

The Company did not own any Level 3 financial assets or liabilities as of September 30, 2016 or December 31, 2015. During the three and nine months ended September 30, 2016 and 2015, the Company did not record impairment charges related to its marketable investments, and the Company did not have any transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy.

The Company did not have any financial assets and liabilities measured at fair value on a non-recurring basis as of September 30, 2016 or December 31, 2015.

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

	As of September 30, 2016			
	Level 1	Level 2	Level 3	Fair Value
Financial Assets				
Cash equivalents:				
Money market funds	$334	$—	$—	$334
Marketable investments:				
Commercial paper	—	8,620	—	8,620
U.S. Treasury	15,506		—	15,506
U.S. agency securities	—	11,804	—	11,804
U.S. states and municipalities	—	13,118	—	13,118
Corporate bonds	—	71,234	—	71,234
Non-U.S. government debt securities	—	5,693	—	5,693
Total	$15,840	$110,469	$—	$126,309

	As of December 31, 2015			
	Level 1	Level 2	Level 3	Fair Value
Financial Assets				
Cash equivalents:				
Commercial paper	$—	$9,850	$—	$9,850
Money market funds	252	—	—	252
Marketable investments:				
Commercial paper	—	22,332	—	22,332
U.S. Treasury	15,436	—	—	15,436
U.S. agency securities	—	21,464	—	21,464
U.S. states and municipalities	—	2,084	—	2,084
Corporate bonds	—	61,002	—	61,002
Non-U.S. government debt securities	—	6,939	—	6,939
Total	$15,688	$123,671	$—	$139,359

4. Balance Sheet Components

Cash and Cash Equivalents

The majority of the Company's cash is held by one financial institution in the United States in an amount that exceeds federally insured limits. The Company maintained investments in money market funds that were not federally insured during the periods presented and held cash in foreign banks of approximately $2.7 million and $1.9 million at September 30, 2016 and December 31, 2015, respectively, that were not federally insured. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Accounts Receivable, Net

The Company's allowance for doubtful accounts comprised of the following (in thousands):

Allowance for Doubtful Accounts	September 30, 2016	December 31, 2015
Balance at the beginning of the period	$ 589	$ 602
Charged to costs and expenses	152	(13)
Deductions	(110)	—
Balance at the end of the period	$ 631	$ 589

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(unaudited)

One customer (a distributor) accounted for 13% and 11%, respectively, of the Company's revenue during the three months ended September 30, 2016 and 2015. The same customer accounted for 11% during the nine months ended September 30, 2016 and 2015. No customer accounted for greater than 10% of the Company's accounts receivable balance as of September 30, 2016 or December 31, 2015.

Prepaid Expenses and Other Current Assets

The Company's prepaid expenses and other current assets as of September 30, 2016 and December 31, 2015 were comprised of the following (in thousands):

	September 30, 2016	December 31, 2015
Prepaid Tax	$ 3,321	$ 2,736
Prepaid expenses	5,236	4,706
Income tax receivable	5,104	606
Other current assets	5,004	1,304
Prepaid expenses and other current assets	$ 18,665	$ 9,352

Marketable Investments

The Company's marketable investments as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	September 30, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$8,621	$ 2	$ (3)	$8,620
U.S. Treasury	15,488	18	—	15,506
U.S. agency securities	11,787	19	(2)	11,804
U.S. states and municipalities	13,129	—	(11)	13,118
Corporate bonds	71,113	133	(12)	71,234
Non-U.S. government debt securities	5,693	3	(3)	5,693
Total	$125,831	$ 175	$ (31)	$125,975

	December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Commercial paper	$22,328	$ 5	$ (1)	$22,332
U.S. Treasury	15,459	4	(27)	15,436
U.S. agency securities	21,497	1	(34)	21,464
U.S. states and municipalities	2,086	—	(2)	2,084
Corporate bonds	61,188	3	(189)	61,002
Non-U.S. government debt securities	6,954	1	(16)	6,939
Total	$129,512	$ 14	$ (269)	$129,257

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Notes to Condensed Consolidated Financial Statements
(unaudited)

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 as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	
	Fair Value	Gross Unrealized Losses
Commercial paper	$4,223	$ (3)
US Agency securities	1,999	(2)
U.S. States and Municipalities	11,778	(11)
Corporate bonds	15,740	(12)
Non-U.S. government debt securities	4,474	(3)
Total	$38,214	$ (31)

	December 31, 2015	
	Fair Value	Gross Unrealized Losses
Commercial paper	$4,746	$ (1)
U.S. Treasury	12,453	(27)
U.S. agency securities	13,475	(34)
U.S. states and municipalities	2,084	(2)
Corporate bonds	59,163	(189)
Non-U.S. government debt securities	5,881	(16)
Total	$97,802	$ (269)

As of September 30, 2016 and December 31, 2015, there were no securities that had been in a loss position for more than twelve months.

The contractual maturities of the Company’s marketable investments as of September 30, 2016 and December 31, 2015 were as follows (in thousands):

	September 30, 2016	December 31, 2015
	Fair Value	
Due in one year	$94,388	$62,983
Due in one to five years	31,587	66,274
Total	$125,975	$129,257

Inventories

Inventories are stated at the lower of cost (determined under the first-in first-out method) or market. Inventory quantities are reviewed in consideration of actual loss experience, projected future demand and remaining shelf life to record a provision for excess and obsolete inventory when appropriate.

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Notes to Condensed Consolidated Financial Statements
(unaudited)

The components of inventories as of September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	$ 10,900	$ 9,176
Work in process	2,991	2,746
Finished goods	56,201	44,839
Inventories	$ 70,092	$ 56,761

Property and Equipment, Net

Property and equipment, net as of September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Machinery and equipment	$ 9,708	$ 8,559
Furniture and fixtures	3,112	2,091
Leasehold improvements	2,384	1,564
Software	1,020	666
Computers	671	565
Construction in progress	6,194	577
Total property and equipment	23,089	14,022
Less: Accumulated depreciation and amortization	(6,865)	(5,071)
Property and equipment, net	$ 16,224	$ 8,951

Depreciation and amortization expense was $0.7 million and $0.5 million for the three months ended September 30, 2016 and 2015, respectively, and was $1.8 million and $1.2 million for the nine months ended September 30, 2016 and 2015, respectively.

Accrued Liabilities

The following table shows the components of accrued liabilities as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Payroll and employee-related expenses	$ 17,519	$ 13,653
Sales return reserve	2,995	3,247
Preclinical and clinical trial cost	2,195	1,330
Deferred revenue	345	526
Product warranty	1,138	713
Sales tax payable	578	531
Income tax payable	400	308
Leasehold improvement expenditures	2,093	—
Other accrued liabilities	6,497	5,273
Total accrued liabilities	$ 33,760	$ 25,581

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(unaudited)

The estimated product warranty accrual as of September 30, 2016 and December 31, 2015 was as follows (in thousands):

	September 30, 2016	December 31, 2015
Balance at the beginning of the period	$ 713	$ 314
Provision for product warranty	894	752
Settlements of product warranty claims	(469)	(353)
Balance at the end of the period	$ 1,138	$ 713

5. Commitments and Contingencies

Lease Commitments

The Company leases its offices and other equipment under non-cancelable operating leases that expire at various dates from 2029 to 2031. Rent expense for non-cancelable operating leases with scheduled rent increases is recognized on a straight-line basis over the lease term. Rent expense for the three months ended September 30, 2016 and 2015 was $1.4 million and $0.9 million, respectively and for the nine months ended September 30, 2016 and 2015 was $3.8 million and $2.3 million, respectively. In addition, the Company's lease commitments also require it to make additional payments during the lease term for taxes, insurance and other operating expenses.

Royalty Obligations

In March 2005, the Company entered into a license agreement that requires the Company to make minimum royalty payments to the licensor on a quarterly basis. As of both September 30, 2016 and December 31, 2015, the license agreement required minimum annual royalty payments of $0.1 million in equal quarterly installments. On each January 1, the quarterly calendar year minimum royalty will be adjusted to equal the prior year’s minimum royalty adjusted by a percentage equal to the percentage change in the “consumer price index for all urban consumers” for the prior calendar year as reported by the U.S. Department of Labor. Unless terminated earlier, the term of the license agreement will continue until the expiration of the last to expire patent that covers that licensed product or 2022, whichever is longer.

In April 2012, the Company entered into an agreement that requires the Company to pay, on a quarterly basis, a 5% royalty on sales of products covered under applicable patents. Unless the agreement is terminated earlier, the royalty term for each applicable product will continue until the expirations of the applicable patent covering such product or 2029, whichever is longer.

In November 2013, the Company entered into an agreement that requires the Company to pay, on a quarterly basis, a 3% royalty on the first $5 million in sales and a 1% royalty on sales thereafter of products covered under applicable patents. Unless the agreement is terminated earlier, the royalty for each covered product shall continue until 2030.

In April 2015, the Company entered into a royalty agreement that requires the Company to pay, on a quarterly basis, a 2% royalty on sales of certain products covered by the agreement. Unless the royalty agreement is terminated earlier, the royalty term for each covered product shall continue until 2035.

Royalty expense included in cost of sales for the three months ended September 30, 2016 and 2015 was $0.7 million and $0.6 million, respectively and for the nine months ended September 30, 2016 and 2015 was $2.1 million and $1.4 million, respectively.

Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated.

Indemnification

The Company enters into standard indemnification arrangements in the ordinary course of business. In many such arrangements, the Company agrees to indemnify, hold harmless, and reimburse the indemnified parties for losses suffered or incurred by the indemnified parties in connection with any trade secret, copyright, patent or other

intellectual property infringement claim by any third-party with respect to the Company's technology. The term of these indemnification agreements

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is generally perpetual. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable because it involves claims that may be made against the Company in the future, but have not yet been made.

The Company has entered into indemnification agreements with its directors and officers that may require the Company to indemnify its directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct of the individual.

The Company has not incurred costs to defend lawsuits or settle claims related to these indemnification agreements. No liability associated with any of these indemnification requirements has been recorded to date.

Litigation

The Company was contacted in 2015 by the attorney for a potential product liability claimant who allegedly suffered injuries as a result of an aneurysm procedure in which the Penumbra Coil 400 was used. On February 19, 2016, a complaint for damages was filed on behalf of this claimant against the Company and the hospital involved in the procedure (Montgomery v. Penumbra, Inc., et al., Case No. 16-2-04050-1 SEA, Superior Court of the State of Washington, King County). The suit alleges liability primarily under the Washington Product Liability Act and seeks both compensatory and punitive damages without a specific damages claim. Counsel for the claimant previously indicated that he expects that a jury could award $35 million in damages were this matter to go to trial. This amount is substantially in excess of the Company's insurance coverage. The hospital defendant had requested indemnification from the Company but was dismissed from the case in July 2016. The case is in the discovery phase, and the Company is unable to assess the merits of the plaintiff's case. The Company intends to vigorously defend the litigation, as the Company believes there will be substantial questions regarding causation, liability and damages.

From time to time, the Company is subject to claims and assessments in the ordinary course of business. The Company is not currently a party to any litigation matter that, individually or in the aggregate, is expected to have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

6. Stock-Based Compensation

Stock Options

Activity of stock options under the Penumbra, Inc. 2005 Stock Plan, the Penumbra, Inc. 2011 Equity Incentive Plan and the Amended and Restated Penumbra, Inc. 2014 Equity Incentive Plan (collectively the "Plans") during the nine months ended September 30, 2016 is set forth below:

	Number of Shares	Weighted-Average Exercise Price
Balance at December 31, 2015	3,755,345	$ 12.13
Options exercised	(832,681)	3.45
Options canceled	(15,925)	17.90
Balance at September 30, 2016	2,906,739	14.58

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Restricted Stock and Restricted Stock Units
The following table summarizes the activity of unvested restricted stock and restricted stock units under the Plans during the nine months ended September 30, 2016 is set forth below:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2015	849,571	$ 15.12
Granted	293,250	61.78
Vested	(139,325)	17.68
Canceled/Forfeited	(7,500)	19.77
Unvested and expected to vest at September 30, 2016	995,996	28.47

Employee Stock Purchase Plan
Under the Penumbra, Inc. Employee Stock Purchase Plan (“ESPP”), employees purchased 148,354 shares for $3.8 million during the nine months ended September 30, 2016.
Stock-based Compensation
The following table sets forth the stock-based compensation expense included in the condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of sales	$83	$141	$742	$271
Research and development	251	100	790	282
Sales, general and administrative	3,930	1,269	9,268	4,573
Total	$4,264	$1,510	$10,800	$5,126

As of September 30, 2016, total unrecognized compensation cost was $35.1 million related to unvested share-based compensation arrangements which is expected to be recognized over a weighted average period of 2.9 years.
The total stock-based compensation cost capitalized in inventory was $0.4 million and $0.3 million as of September 30, 2016 and December 31, 2015, respectively.

7. Accumulated Other Comprehensive (Loss) Income
Other comprehensive (loss) income consists of two components: unrealized gains or losses on the Company’s available-for-sale marketable investments, and gains or losses from foreign currency translation adjustments. Until realized and reported as a component of net income, these comprehensive income items accumulate and are included within accumulated other comprehensive (loss) income. Unrealized gains and losses on the Company’s marketable investments are reclassified from accumulated other comprehensive (loss) income into earnings when realized upon sale, and are determined based on specific identification of securities sold. Gains and losses from the translation of assets and liabilities denominated in non-U.S. dollar functional currencies are included in accumulated other comprehensive (loss) income.

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The following table summarizes the changes in the accumulated balances during the three and nine months ended September 30, 2016 and 2015, and includes information regarding the manner in which the reclassifications out of accumulated other comprehensive (loss) income into earnings affect the Company's condensed consolidated statements of operations and comprehensive (loss) income (in thousands):

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Marketable Investments	Currency Translation Adjustments	Total	Marketable Investments	Currency Translation Adjustments	Total
Balance at beginning of the period	$206	$ (2,785)	$(2,579)	$—	$ (1,233)	$(1,233)
Other comprehensive income before reclassifications:						
Unrealized (losses) gains—marketable investments	(178)	—	(178)	—	—	—
Foreign currency translation (losses) gains	—	(901)	(901)	—	(327)	(327)
Income tax effect—benefit (expense)	63	3	66	—	24	24
Net of tax	(115)	(898)	(1,013)	—	(303)	(303)
Amounts reclassified from accumulated other comprehensive income to earnings:						
Realized losses (gains)—marketable investments	1	—	1	—	—	—
Income tax effect—(expense) benefit	(1)	—	(1)	—	—	—
Net of tax	—	—	—	—	—	—
Net current-year other comprehensive (loss) income	(115)	(898)	(1,013)	—	(303)	(303)
Balance at end of the period	$91	$ (3,683)	$(3,592)	$—	$ (1,536)	$(1,536)

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Marketable Investments	Currency Translation Adjustments	Total	Marketable Investments	Currency Translation Adjustments	Total
Balance at beginning of the period	$(163)	$ (1,952)	$(2,115)	$(220)	$ (644)	$(864)
Other comprehensive income before reclassifications:						
Unrealized gains (losses)—marketable investments	401	—	401	(162)	—	(162)
Foreign currency translation (losses) gains	—	(1,732)	(1,732)	—	(1,008)	(1,008)
Income tax effect—(expense) benefit	(145)	1	(144)	36	116	152
Net of tax	256	(1,731)	(1,475)	(126)	(892)	(1,018)
Amounts reclassified from accumulated other comprehensive income to earnings:						
Realized (gains) losses—marketable investments	(3)	—	(3)	541	—	541
Income tax effect—benefit (expense)	1	—	1	(195)	—	(195)
Net of tax	(2)	—	(2)	346	—	346
Net current-year other comprehensive income (loss)	254	(1,731)	(1,477)	220	(892)	(672)
Balance at end of the period	$91	$ (3,683)	$(3,592)	$—	$ (1,536)	$(1,536)

8. Income Taxes

The Company's income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated current and future taxes to be paid. The Company is subject to income taxes in both the United States and foreign jurisdictions. Significant judgment and estimates are required in determining the consolidated income tax expense.

During interim periods, the Company generally utilizes the estimated annual effective tax rate method which involves the use of forecasted information. Under this method, the provision is calculated by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. Although management believes the use of the annual effective tax rate method to be appropriate for prior interim reporting periods, for the fiscal three and nine month periods ended September 30, 2016 and September 30, 2015, respectively, the Company used a discrete effective tax rate method to calculate taxes. The discrete method of calculating the estimated effective tax rate involves the use of actual year-to-date information. The Company determined that

since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate, the discrete effective tax rate method would provide a more reliable estimate in income tax expense for both periods.

The Company’s effective tax rate decreased to (1.3)% for the three months ended September 30, 2016, compared to 56.8% for the three months ended September 30, 2015. The decrease in rate was primarily attributable to an income tax benefit as a result of a domestic operating loss offset by an income tax expense from discrete items recorded for the three month period.

The effective tax rate increased to 121.8% for the nine months ended September 30, 2016, compared to 65.9% for the nine months ended September 30, 2015. The increase in rate was primarily attributable to a shift in the ratio of operating income between jurisdictions for the nine month period.

9. Net (Loss) Income per Share of Common Stock attributable to Common Stockholders

The Company calculated its basic and diluted net income per share attributable to common stockholders for the three and nine months ended September 30, 2015 in conformity with the two-class method required for companies with participating securities. Under the two-class method, the Company determined whether it had net income attributable to common stockholders, which included the results of operations less current period preferred stock non-cumulative dividends. If it was determined that the Company did have net income attributable to common stockholders during a period, the related undistributed earnings were then allocated between common stock and the preferred stock based on the weighted average number of shares outstanding during the period to determine the numerator for the basic net income per share attributable to common stockholders. In computing diluted net income attributable to common stockholders, undistributed earnings were re-allocated to reflect the potential impact of dilutive securities to determine the numerator for the diluted net income per share attributable to common stockholders.

The Company’s basic net income per share attributable to common stockholders is calculated by dividing the net income by the weighted average number of shares of common stock outstanding for the period. The diluted net (loss) income per share attributable to common stockholders is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock, restricted stock and common stock warrants are considered common stock equivalents.

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A reconciliation of the numerator and denominator used in the calculation of the basic and diluted net (loss) income per share attributable to common stockholders for the three and nine months ended September 30, 2016 and 2015 is as follows (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net (loss) income per share:				
Numerator				
Net (loss) income	$(1,106)	$ 901	$(141)	$ 732
Less: Undistributed income attributable to preferred stockholders	—	(625)	—	(557)
Net (loss) income attributable to common stockholders—basic and diluted	$(1,106)	$ 276	$(141)	$ 175
Denominator				
Weighted average shares used to compute net (loss) income attributable to common stockholders—Basic	30,604,384	7,853,730	30,269,463	6,962,031
Potential dilutive options, as calculated using treasury stock method	—	1,979,194	—	2,362,685
Potential dilutive restricted stock and restricted stock units, as calculated using treasury stock method	—	356,324	—	169,935
Weighted average shares used to compute net income attributable to common stockholders—Diluted	30,604,384	10,189,248	30,269,463	9,494,651
Net (loss) income per share attributable to common stockholders—Basic	$(0.04)	$ 0.04	$0.00	$ 0.03
—Diluted	$(0.04)	$ 0.03	$0.00	$ 0.02

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Options to purchase common stock	2,974,642	1,321,250	2,974,642	1,321,250
Restricted stock and restricted stock units	995,996	6,500	995,996	6,500
Total	3,970,638	1,327,750	3,970,638	1,327,750

10. Geographic Areas and Product Sales

The Company’s revenue by geographic area, based on the destination to which the Company ships its products, for the three and nine months ended September 30, 2016 and 2015 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
United States	$44,380	$35,394	$127,484	$89,364
Japan	8,859	5,420	21,589	14,030
Other International	13,948	9,602	41,139	28,285

Total	$67,187	$50,416	$190,212	$131,679

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The following table sets forth revenue by product category (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Neuro	$47,534	$36,309	$134,180	$102,363
Peripheral Vascular	19,653	14,107	56,032	29,316
Total	$67,187	$50,416	$190,212	$131,679

The Company does not have significant long-lived assets outside the U.S.

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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 unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2015, included in our Annual Report on Form 10-K filed with the SEC on March 8, 2016.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In some cases, you can identify these statements by forward-looking words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "should," "estimate," or "co similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015. The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date of this Quarterly Report on Form 10-Q. Except as may be required by law, we assume no obligation to update these forward-looking statements or the reasons that results could differ from these forward-looking statements. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

Overview

Penumbra, Inc. ("we," "our," "us," "Penumbra," and the "Company") is a global interventional therapies company that designs develops, manufactures and markets innovative medical devices. We have a broad portfolio of products that addresses challenging medical conditions and significant clinical needs across two major markets, neuro and peripheral vascular. The conditions that our products address include, among others, ischemic stroke, hemorrhagic stroke and various peripheral vascular conditions that can be treated through thrombectomy and embolization procedures.

We are an established company focused on the neuro and peripheral vascular markets. We sell our products to hospitals, primarily through our salesforce, as well as through distributors in select international markets. We focus on developing, manufacturing and marketing products for use by specialist physicians, including interventional neuroradiologists, neurosurgeons, interventional neurologists, interventional radiologists and vascular surgeons. We design our products to provide these specialist physicians with a means to drive improved clinical outcomes through faster and safer procedures.

Since our founding in 2004, we have invested heavily in our product development capabilities in our two key markets: neuro and peripheral vascular. We launched our first neurovascular product in 2007, our first peripheral vascular product in 2013 and our first neurosurgical product in 2014. To date, we have launched 16 product brands, and we expect to continue to develop and build our portfolio of products based on our thrombectomy, embolization and access technologies. Generally, when we introduce a next generation product or a new product designed to replace a current product, sales of the earlier generation product or the product replaced decline. Our research and development activities are centered around the development of new products and clinical activities designed to support our regulatory submissions and demonstrate the effectiveness of our products.

We manufacture substantially all of our products at our campus in Alameda, California, and stock inventory of raw materials, components and finished goods primarily at that location. We rely on a single or limited number of suppliers for certain raw materials and components, and we generally have no long-term supply arrangements with our suppliers, as we order on a purchase order basis. We ship all of our products to our hospital customers and distributors worldwide pursuant to purchase orders. We typically recognize revenue when products are delivered to our hospital customers or distributors, other than our coils, which we ship to our hospital customers on a consignment basis, and for which we recognize revenue when the hospital customers utilize products in a procedure.

Hospitals purchase our products for use in procedures performed by their specialist physicians, generally seeking reimbursement from third party payors for procedures performed. We believe that the cost-effectiveness of our

products is attractive to our hospital customers.

In the nine months ended September 30, 2016 and 2015, 33.0% and 32.1% of our revenue, respectively, was generated from customers located outside of the United States. A significant amount of our sales outside of the United States are denominated in the Euro and Japanese Yen, with some sales being denominated in British Pounds, Canadian dollars and Australian dollars. As a result, we have foreign exchange exposure, but do not currently engage in hedging. In the nine months ended September 30, 2016, no single hospital and only one distributor accounted for more than 10% of our sales.

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We sell our products to hospitals primarily through our direct sales organization in the United States, most of Europe, Canada and Australia, as well as through distributors in select international markets. In the nine months ended September 30, 2016, we generated revenue of $190.2 million as compared to $131.7 million for the nine months ended September 30, 2015, which represents an increase of 44.5%, and in the nine months ended September 30, 2016, we generated a $0.2 million operating loss as compared to operating income of $2.4 million for the nine months ended September 30, 2015, which represents a decrease of 108.4%.

Factors Affecting Our Performance

There are a number of factors that have impacted, and we believe will continue to impact, our results of operations and growth. For example:

- The rate at which we grow our salesforce and the speed at which newly hired salespeople become fully effective can impact our revenue growth or our costs incurred in anticipation of such growth.
- Our industry is intensely competitive and, in particular, we compete with a number of large, well-capitalized companies. We must continue to successfully compete in light of our competitors' existing and future products and their resources to successfully market to the specialist physicians who use our products.
- We must continue to successfully introduce new products that gain acceptance with specialist physicians and successfully transition from existing products to new products, ensuring adequate supply while avoiding excess inventory of older products and resulting inventory write-downs or write-offs. In addition, as we introduce new products, we generally hire and train additional personnel and build our inventory of components and finished goods in advance of sales, which may cause quarterly fluctuations in our financial condition.
- Publications of clinical results by us, our competitors and other third parties can have a significant influence on whether, and the degree to which, our products are used by specialist physicians and the procedures and treatments those physicians choose to administer for a given condition.
- The specialist physicians who use our products may not perform procedures during certain times of the year, such as those periods when they are at major medical conferences or are away from their practices for other reasons, the timing of which occurs irregularly during the year and from year to year.

In addition, we have experienced and expect to continue to experience meaningful variability in our quarterly revenue, gross profit and gross margin as a result of a number of factors, including, but not limited to: the number of available selling days, which can be impacted by holidays; the mix of products sold; the geographic mix of where products are sold; the demand for our products and the products of our competitors; the timing of or failure to obtain regulatory approvals or clearances for products; increased competition; the timing of customer orders; inventory write-offs and write-downs; costs, benefits and timing of new product introductions; the availability and cost of components and raw materials; and fluctuations in foreign currency exchange rates. We experience quarters in which we have significant revenue growth sequentially followed by quarters of moderate or no revenue growth. Additionally, we experience quarters in which operating expenses, in particular research and development expenses, fluctuate depending on the stage and timing of product development.

Components of Results of Operations

Revenue. We sell our products directly to hospitals and through distributors for use in procedures performed by specialist physicians to treat patients in two key markets: neuro and peripheral vascular disease. We sell our products through purchase orders, and we do not have long-term purchase commitments from our customers. We typically recognize revenue when products are delivered to our hospital customers or distributors. However, with respect to products that we consign to hospitals, which primarily consist of coils, we recognize revenue at the time hospitals utilize products in a procedure. Revenue also includes shipping and handling costs that we charge to customers.

Cost of Revenue. Cost of revenue consists primarily of the cost of raw materials and components, personnel costs, including stock-based compensation, inbound freight charges, receiving costs, inspection and testing costs, warehousing costs, royalty expense, shipping and handling costs and other labor and overhead costs incurred in the manufacturing of products. We manufacture substantially all of our products in our manufacturing facility at our campus in Alameda, California.

Operating Expenses

Research and Development (R&D). R&D expenses primarily consist of product development, clinical and regulatory expenses, materials, depreciation and other costs associated with the development of our products. R&D expenses also include salaries, benefits and other related costs, including stock-based compensation, for personnel and consultants. We expense R&D costs as they are incurred.

We expect our R&D expenses to continue to increase in absolute terms as we innovate and develop new products, add personnel and engage in ongoing clinical research.

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Sales, General and Administrative (SG&A). SG&A expenses primarily consist of salaries, benefits and other related costs, including stock-based compensation, for personnel and consultants engaged in sales, marketing, finance, legal, compliance, administrative, facilities and information technology, medical education and training and human resource activities. Our SG&A expenses also include commissions, generally based on a percentage of sales, to direct sales representatives and the medical device excise tax, which was approximately 2.3% of U.S. sales in 2015. The medical device excise tax has been suspended for a two-year period commencing January 1, 2016; however, it could be reinstated.

We expect our SG&A expenses to continue to increase in absolute terms as we expand our salesforce, marketing programs and operations, including those related to operating as a public company.

Income Tax Expense. We are taxed at the rates applicable within each jurisdiction in which we operate. The composite income tax rate, tax provisions, deferred tax assets and deferred tax liabilities will vary according to the jurisdiction in which profits arise. Tax laws are complex and subject to different interpretations by management and the respective governmental taxing authorities, and require us to exercise judgment in determining our income tax provision, our deferred tax assets and liabilities and the potential valuation allowance recorded against our net deferred tax assets. Deferred tax assets and liabilities are determined using the enacted tax rates in effect for the years in which those tax assets are expected to be realized. A valuation allowance is established when it is more likely than not that the future realization of all or some of the deferred tax assets will not be achieved.

Results of Operations

The following table sets forth the components of our condensed consolidated statements of operations in dollars and as a percentage of revenue for the periods presented:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	(in thousands, except for percentages)							
Revenue	$67,187	100.0 %	$50,416	100.0 %	$190,212	100.0 %	$131,679	100.0 %
Cost of revenue	24,313	36.2 %	16,919	33.6 %	65,963	34.7 %	44,079	33.5 %
Gross profit	42,874	63.8 %	33,497	66.4 %	124,249	65.3 %	87,600	66.5 %
Operating expenses:								
Research and development	6,497	9.7 %	4,560	9.0 %	17,762	9.3 %	12,543	9.5 %
Sales, general and administrative	37,740	56.2 %	26,755	53.1 %	106,685	56.1 %	72,698	55.2 %
Total operating expenses	44,237	65.8 %	31,315	62.1 %	124,447	65.4 %	85,241	64.7 %
(Loss) Income from operations	(1,363)	(2.0)%	2,182	4.3 %	(198)	(0.1)%	2,359	1.8 %
Interest income, net	631	0.9 %	17	— %	1,700	0.9 %	402	0.3 %
Other expense, net	(360)	(0.5)%	(115)	(0.2)%	(856)	(0.5)%	(613)	(0.5)%
(Loss) Income before provision for income taxes	(1,092)	(1.6)%	2,084	4.1 %	646	0.3 %	2,148	1.6 %
Provision for income taxes	14	— %	1,183	2.3 %	787	0.4 %	1,416	1.1 %
Net (loss) income	$(1,106)	(1.6)%	$901	1.8 %	$(141)	(0.1)%	$732	0.6 %

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Revenue

	Three Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
Neuro	$47,534	$36,309	$11,225	30.9%
Peripheral Vascular	19,653	14,107	5,546	39.3%
Total	$67,187	$50,416	$16,771	33.3%

Revenue increased $16.8 million, or 33.3%, to $67.2 million in the three months ended September 30, 2016, from $50.4 million in the three months ended September 30, 2015. Our revenue growth resulted from further market penetration of our existing products and sales of new products or products with new indications. Increased sales within our neuro and peripheral vascular businesses accounted for approximately two thirds and one third of the revenue increase, respectively, in the three months ended September 30, 2016.

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Revenue from sales in the U.S. increased $9.0 million, or 25.4%, to $44.4 million in the three months ended September 30, 2016, from $35.4 million in the three months ended September 30, 2015. Revenue from sales in international markets increased $7.8 million, or 51.8%, to $22.8 million in the three months ended September 30, 2016, from $15.0 million in the three months ended September 30, 2015. Revenue from international sales represented 33.9% and 29.8% of our total revenue for the three months ended September 30, 2016 and 2015, respectively.

Revenue from our neuro products increased $11.2 million, or 30.9%, to $47.5 million in the three months ended September 30, 2016, from $36.3 million in the three months ended September 30, 2015. Our neuro product sales experienced strong momentum due to further market penetration and growth in the market following the presentation and publication of MR. CLEAN trial results in the fourth quarter of 2014, which support endovascular treatment of stroke. We believe that these and other published trial results have led to increases in the number of procedures performed by specialist physicians using our products. Increased sales of Penumbra System products accounted for slightly less than half of the neuro revenue increase in the three months ended September 30, 2016. Further, increased sales of our neuro embolization products accounted for approximately 40% of the neuro revenue increase period over period. This increase was due to greater demand for our neuro coil products, which can fluctuate from period to period due to the number of procedures performed in a given period using our products. Prices for our neuro products remained substantially unchanged during the period.

Revenue from our peripheral vascular products increased $5.5 million, or 39.3%, to $19.7 million in the three months ended September 30, 2016, from $14.1 million in the three months ended September 30, 2015. Our peripheral embolization and peripheral thrombectomy products experienced strong volume growth in the period due to increases in the number of procedures, primarily due to the focused efforts of our dedicated peripheral vascular salesforce, which was established in the second half of 2014, and further market penetration of our products. Increased sales of Indigo System products accounted for slightly less than 40% of the peripheral vascular revenue increase in the three months ended September 30, 2016. Prices for our peripheral vascular products remained substantially unchanged during the period.

Gross Profit and Gross Margin

	Three Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
Cost of revenue	$24,313	$16,919	$7,394	43.7%
Gross profit	$42,874	$33,497	$9,377	28.0%
Gross margin %	63.8 %	66.4 %		

Gross profit increased $9.4 million, or 28.0%, to $42.9 million in the three months ended September 30, 2016, from $33.5 million in the three months ended September 30, 2015. The increase in gross profit was primarily due to an increase in revenue from sales of our neuro and peripheral vascular products.

Gross margin decreased 2.6 percentage points to 63.8% in the three months ended September 30, 2016, from 66.4% in the three months ended September 30, 2015. The decrease in gross margin was due to new product launches, additional costs associated with hiring and training additional personnel and geographic and product mix.

Research and Development (R&D)

	Three Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
R&D	$6,497	$4,560	$1,937	42.5%
R&D as a percentage of revenue	9.7 %	9.0 %		

R&D expenses increased by $1.9 million, or 42.5%, to $6.5 million in the three months ended September 30, 2016, from $4.6 million in the three months ended September 30, 2015. The increase was primarily due to a $1.1 million

increase in personnel-related expenses due to an increase in headcount and a $0.5 million increase in product development, testing and clinical trial costs.

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Sales, General and Administrative (SG&A)

	Three Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
SG&A	$37,740	$26,755	$10,985	41.1%
SG&A as a percentage of revenue	56.2 %	53.1 %		

SG&A expenses increased by $11.0 million, or 41.1%, to $37.7 million in the three months ended September 30, 2016, from $26.8 million in the three months ended September 30, 2015. The increase was primarily due to a $7.0 million increase in personnel-related expenses due to a 59% increase in headcount as a result of additional personnel to support our growth and a $0.8 million increase due to marketing events.

Provision for Income Taxes

	Three Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
Provision for income taxes	$14	$1,183	$(1,169)	(98.8)%
Effective tax rate	(1.3)%	56.8 %		

During interim periods, the Company generally utilizes the estimated annual effective tax rate method which involves the use of forecasted information. Under this method, the provision is calculated by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. The discrete method of calculating the estimated effective tax rate involves the use of actual year-to-date information. The Company applied the discrete effective tax rate method for the periods ended September 30, 2016 and September 30, 2015, respectively. The Company determined that since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate, the discrete effective tax rate method would provide a more reliable estimate in income tax expense for both periods.

Our provision for our income taxes decreased $1.2 million, to $14,000 in the three months ended September 30, 2016, from $1.2 million in the three months ended September 30, 2015. Our effective tax rate decreased to (1.3)% for the three months ended September 30, 2016, compared to 56.8% for the three months ended September 30, 2015. The decrease in rate was primarily attributable to an income tax benefit as a result of our domestic operating loss offset by an income tax expense from discrete items recorded for the three month period.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Revenue

	Nine Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
Neuro	$134,180	$102,363	$31,817	31.1%
Peripheral Vascular	56,032	29,316	26,716	91.1%
Total	$190,212	$131,679	$58,533	44.5%

Revenue increased $58.5 million, or 44.5%, to $190.2 million in the nine months ended September 30, 2016, from $131.7 million in the nine months ended September 30, 2015. Our revenue growth resulted from further market penetration of our existing products and sales of new products or products with new indications. Increased sales within our neuro business accounted for slightly more than half of the revenue increase in the nine months ended September 30, 2016.

Revenue from sales in the U.S. increased $38.1 million, or 42.7%, to $127.5 million in the nine months ended September 30, 2016, from $89.4 million in the nine months ended September 30, 2015. Revenue from sales in international markets increased $20.4 million, or 48.2%, to $62.7 million in the nine months ended September 30, 2016, from $42.3 million in the nine months ended September 30, 2015. Revenue from international sales represented 33.0% and 32.1% of our total revenue for the nine months ended September 30, 2016 and 2015, respectively. Revenue from our neuro products increased $31.8 million, or 31.1%, to $134.2 million in the nine months ended September 30, 2016, from $102.4 million in the nine months ended September 30, 2015. Our neuro product sales experienced strong momentum due to further market penetration and growth in the market following the presentation and publication of

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MR. CLEAN trial results in the fourth quarter of 2014, which support endovascular treatment of stroke. We believe that these and other published trial results have led to increases in the number of procedures performed by specialist physicians using our products. Increased sales of Penumbra System products accounted for slightly more than half of the neuro revenue increase in the nine months ended September 30, 2016. Further, increased sales of our neuro embolization products accounted for approximately 30% of the neuro revenue increase period over period. This increase was due to greater demand for our neuro coil products, which can fluctuate from period to period due to the number of procedures performed in a given period using our products. Prices for our neuro products remained substantially unchanged during the period.

Revenue from our peripheral vascular products increased $26.7 million, or 91.1%, to $56.0 million in the nine months ended September 30, 2016, from $29.3 million in the nine months ended September 30, 2015. Our peripheral embolization and peripheral thrombectomy products experienced strong volume growth in the period due to increases in the number of procedures, the focused efforts of our dedicated peripheral vascular salesforce, which was established in the second half of 2014, and further market penetration of our products. Increased sales of Indigo System products accounted for approximately 60% of the peripheral vascular revenue increase in the nine months ended September 30, 2016. Prices for our peripheral vascular products remained substantially unchanged during the period.

Gross Profit and Gross Margin

	Nine Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
Cost of revenue	$65,963	$44,079	$21,884	49.6%
Gross profit	$124,249	$87,600	$36,649	41.8%
Gross margin %	65.3 %	66.5 %		

Gross profit increased $36.6 million, or 41.8%, to $124.2 million in the nine months ended September 30, 2016, from $87.6 million in the nine months ended September 30, 2015. The increase in gross profit was primarily due to an increase in revenue from sales of our neuro and peripheral vascular products.

Gross margin decreased 1.2 percentage points to 65.3% in the nine months ended September 30, 2016, from 66.5% in the nine months ended September 30, 2015. The decrease in gross margin was due to new product launches, additional costs associated with hiring and training additional personnel and geographic and product mix.

Research and Development (R&D)

	Nine Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
R&D	$17,762	$12,543	$5,219	41.6%
R&D as a percentage of revenue	9.3 %	9.5 %		

R&D expenses increased by $5.2 million, or 41.6%, to $17.8 million in the nine months ended September 30, 2016, from $12.5 million in the nine months ended September 30, 2015. The increase was primarily due to a $2.4 million increase in personnel-related expenses due to an increase in headcount, a $1.2 million increase in consultant and contractor expenses and a $0.9 million increase in facilities and information technology expenses.

Sales, General and Administrative (SG&A)

	Nine Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
SG&A	$106,685	$72,698	$33,987	46.8%
SG&A as a percentage of revenue	56.1 %	55.2 %		

SG&A expenses increased by $34.0 million, or 46.8%, to $106.7 million in the nine months ended September 30, 2016, from $72.7 million in the nine months ended September 30, 2015. The increase was primarily due to a $20.7

million increase in personnel-related expenses due to a 59% increase in headcount as a result of additional personnel to support our growth, a $2.2 million increase in facilities and information technology expenses, a $2.2 million increase in travel-related expenses and a $2.0 million increase due to marketing events.

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Provision for Income Taxes

	Nine Months Ended September 30,		Change	
	2016	2015	$	%
	(in thousands, except for percentages)			
Provision for income taxes	$787	$1,416	$(629)	(44.4)%
Effective tax rate	121.8%	65.9 %		

During interim periods, the Company generally utilizes the estimated annual effective tax rate method which involves the use of forecasted information. Under this method, the provision is calculated by applying an estimate of the annual effective tax rate for the full fiscal year to “ordinary” income or loss (pretax income or loss excluding unusual or infrequently occurring discrete items) for the reporting period. The discrete method of calculating the estimated effective tax rate involves the use of actual year-to-date information. The Company applied the discrete effective tax rate method for the periods ended September 30, 2016 and September 30, 2015, respectively. The Company determined that since small changes in estimated “ordinary” income would result in significant changes in the estimated annual effective tax rate, the discrete effective tax rate method would provide a more reliable estimate in income tax expense for both periods

Our provision from income taxes decreased $0.6 million, to $0.8 million in the nine months ended September 30, 2016, from $1.4 million in the nine months ended September 30, 2015. Our effective tax rate increased to 121.8% for the nine months ended September 30, 2016, compared to 65.9% for the nine months ended September 30, 2015. The increase in rate was primarily attributable to a shift in the ratio of operating income between jurisdictions.

Liquidity and Capital Resources

As of September 30, 2016, we had $229.9 million in working capital, which included $15.9 million in cash and cash equivalents and $126.0 million in marketable investments.

In addition to our existing cash and cash equivalents and marketable investment balances, our principal source of liquidity is our accounts receivable. We believe these sources will be sufficient to meet our liquidity requirements for at least the next 12 months. Our principal liquidity requirements are to fund our operations, including our research and development, and capital expenditures. To facilitate our growth, we may also lease or purchase additional facilities. We expect to continue to make investments as we launch new products, expand our manufacturing operations and further expand into international markets. We may, however, require or elect to secure additional financing as we continue to execute our business strategy. If we require or elect to raise additional funds, we may do so through equity or debt financing, which may not be available on favorable terms, could result in dilution to our stockholders and could require us to agree to covenants that limit our operating flexibility.

	September 30, 2016	December 31, 2015
	(in thousands)	
Cash and cash equivalents	$15,856	$ 19,547
Marketable investments	125,975	129,257
Accounts receivable, net	36,635	29,444
Accounts payable	3,584	2,567
Accrued liabilities	33,760	25,581
Working capital(1)	229,879	216,213

(1) Working capital consists of total current assets less total current liabilities.

The following table sets forth, for the periods indicated, our beginning balance of cash and cash equivalents, net cash flows provided by (used in) operating, investing and financing activities and our ending balance of cash and cash equivalents:

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Cash and cash equivalents at beginning of period	$19,547	$3,290
Net cash used in operating activities	(10,051)	(12,631)
Net cash (used in) provided by investing activities	(3,520)	43,584
Net cash provided by financing activities	12,253	125,194
Cash and cash equivalents at end of period	15,856	159,098

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Net Cash Used in Operating Activities

Net cash used in operating activities consists primarily of net income adjusted for certain non-cash items (including depreciation and amortization, inventory write downs, stock-based compensation expense, amortization of premium on marketable investments, provision for doubtful accounts, provision for sales returns, loss on disposal of property and equipment, provision for product warranty), and the effect of changes in working capital and other activities.

Net cash used in operating activities was $10.1 million during the nine months ended September 30, 2016 and consisted of net loss of $0.1 million and non-cash items of $7.0 million offset by net changes in operating assets and liabilities of $16.9 million. The change in operating assets and liabilities include the increase in inventories of $14.0 million to support our revenue growth, an increase in prepaid expenses and other current and non-current assets of $5.5 million and an increase in accounts receivable of $7.1 million, partially offset by an increase in accrued expenses and other non-current liabilities of $8.8 million and accounts payable of $0.9 million, as a result of the growth in our business activities.

Net cash used in operating activities was $12.6 million during the nine months ended September 30, 2015 and consisted of net income of $0.7 million and non-cash items of $6.3 million offset by net changes in operating assets and liabilities of $19.7 million. The change in operating assets and liabilities include the increase in inventories of $18.0 million to support our revenue growth, an increase in accounts receivable of $7.4 million, an increase in prepaid expenses and other current assets and non-current assets of $1.7 million, partially offset by an increase in accrued expenses and other non-current liabilities of $5.9 million and accounts payable of $1.5 million, as a result of the growth in our business activities.

Net Cash (Used in) Provided by Investing Activities

Net cash (used in) provided by investing activities relates primarily to proceeds from sales or maturities of marketable investments, offset by purchases of marketable investments and capital expenditures.

Net cash used in investing activities was $3.5 million during the nine months ended September 30, 2016 and consisted of capital expenditures of $7.1 million, partially offset by net proceeds from sales and maturities of marketable investments of $3.6 million.

Net cash provided by investing activities was $43.6 million during the nine months ended September 30, 2015 and consisted of the net proceeds from sales of marketable investments of $48.1 million partially offset by capital expenditures of $4.5 million.

Net Cash Provided by Financing Activities

Net cash provided by financing activities primarily relates to stock option exercises, issuance of stock under our ESPP and excess tax benefit from stock-based compensation.

Financing activities in the nine months ended September 30, 2016 provided net cash of $12.3 million due to excess tax benefit from stock-based compensation of $7.6 million, proceeds from exercises of stock options of $2.9 million, and proceeds from issuance of stock under our employee stock purchase plan of $3.8 million, partially offset by payment of employee taxes related to vested restricted stock of $2.0 million.

Financing activities in the nine months ended September 30, 2015 provided cash of $125.2 million and consisted of net proceeds from our IPO of $125.9 million, net of issuance costs, excess tax benefit from stock-based compensation of $1.3 million and proceeds from exercises of stock options of $0.5 million, partially offset by payment of employee taxes related to vested common and restricted stock of $2.5 million.

Contractual Obligations and Commitments

Our contractual obligations and commitments as of September 30, 2016 have not materially changed from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements or any holdings in variable interest entities.

Critical Accounting Policies and Estimates

We have prepared our financial statements in accordance with U.S. GAAP. Our preparation of these financial statements requires us to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, expenses, and related disclosures at the date of the financial statements, as well as revenue and expenses recorded during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our

estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from these estimates under different assumptions or conditions.

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There have been no material changes to our critical accounting policies from those described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Recently Issued Accounting Standards

For information with respect to recently issued accounting standards and the impact of these standards on our consolidated financial statements, see Note 2 “Summary of Significant Accounting Policies” to our condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are exposed to various market risks, which may result in potential losses arising from adverse changes in market rates, such as interest rates and foreign exchange rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes and do not believe we are exposed to material market risk with respect to our cash and cash equivalents and/or our marketable investments.

Interest Rate Risk. We had cash and cash equivalents of $15.9 million as of September 30, 2016, which consisted of funds held in general checking and savings accounts. In addition, we had marketable investments of $126.0 million, which consisted primarily of corporate bonds, U.S. agency securities, commercial paper and U.S. Treasury. Our investment policy is focused on the preservation of capital and supporting our liquidity needs. Under the policy, we invest in highly rated securities, while limiting the amount of credit exposure to any one issuer other than the U.S. government. We do not invest in financial instruments for trading or speculative purposes, nor do we use leveraged financial instruments. We utilize external investment managers who adhere to the guidelines of our investment policy. A hypothetical 100 basis point change in interest rates would not have a material impact on the value of our cash and cash equivalents or marketable investments.

Foreign Exchange Risk Management. We operate in countries other than the U.S., and, therefore, we are exposed to foreign currency risks. We bill most sales outside of the U.S. in local currencies, primarily the Euro and Japanese Yen, with some sales being denominated in British Pounds, Canadian dollars and Australian dollars. We expect that the percentage of our sales denominated in foreign currencies may increase in the foreseeable future as we continue to expand into international markets. When sales or expenses are not denominated in U.S. Dollars, a fluctuation in exchange rates could affect our net (loss) income. We do not believe an immediate 10% adverse change in foreign exchange rates would have a material effect on our results of operations. We do not currently hedge our exposure to foreign currency exchange rate fluctuations; however, we may choose to hedge our exposure in the future.

We do not believe that inflation and changes in prices had a significant impact on our results of operations for any periods presented on our condensed consolidated financial statements.

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ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to ensure that the information required to be disclosed by the 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 SEC rules and forms and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures. Based on this review, the principal executive officer and principal financial officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of September 30, 2016.

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 quarterly period ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We were contacted in 2015 by the attorney for a potential product liability claimant who allegedly suffered injuries as a result of an aneurysm procedure in which the Penumbra Coil 400 was used. On February 19, 2016, a complaint for damages was filed on behalf of this claimant against the Company and the hospital involved in the procedure (Montgomery v. Penumbra, Inc., et al., Case No. 16-2-04050-1 SEA, Superior Court of the State of Washington, King County). The suit alleges liability primarily under the Washington Product Liability Act and seeks both compensatory and punitive damages without a specific damages claim. Counsel for the claimant previously indicated that he expects that a jury could award $35 million in damages were this matter to go to trial. This amount is substantially in excess of our insurance coverage. The hospital defendant had requested indemnification from the Company, but was dismissed from the case in July 2016. The case is in the discovery phase, and we are unable to assess the merits of the plaintiff's case. We intend to vigorously defend the litigation, as we believe there will be substantial questions regarding causation, liability and damages.

From time to time, we are subject to claims and assessments in the ordinary course of business. We are not currently a party to any litigation matter that, individually or in the aggregate, is expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS.

There have been no material changes to our risk factors reported or new factors identified since the filing of our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on March 8, 2016.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds from Public Offering of Common Stock

Our Registration Statement on Form S-1 (File No. 333-206412) and our Registration Statement on Form S-1 (File No. 333-207000) filed pursuant to Rule 462(b) relating thereto, each relating to the initial public offering of shares of our common stock, became effective on September 17, 2015. There has been no material change in the planned use of proceeds from our initial public offering from that described in the prospectus dated September 17, 2015 filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act. Pending the planned use of proceeds, we have invested the funds received from our initial public offering in marketable investments.

(c) Issuer Purchases of Equity Securities

None.

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ITEM 6. EXHIBITS.

Exhibit Number	Description	Form	File No.	Exhibit(s)	Filing Date
31.1*	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
31.2*	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.				
32.1**	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.				
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 formatted in Extensible Business Reporting Language (XBRL) includes: (i) Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015, (ii) Condensed Consolidated Statements of Income and Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (iv) Notes to Condensed Consolidated Financial Statements.				

* Filed herewith.

** Furnished herewith.

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SIGNATURES

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

PENUMBRA, INC.

Date: November 3, 2016

By: /s/ Sri Kosaraju
Sri Kosaraju
Chief Financial Officer and Head of Strategy
(Principal Financial and Accounting Officer)