



## Capnia Reports Second Quarter 2015 Financial Results

August 7, 2015

REDWOOD CITY, Calif., Aug. 7, 2015 (GLOBE NEWSWIRE) -- Capnia, Inc. (NASDAQ:CAPN), focused on the development and commercialization of novel products based on its proprietary technologies for precision metering of gas flow, today announced financial results for the second quarter ended June 30, 2015.

"This is an exciting time for Capnia as we move forward with our neonatology, diagnostic and therapeutic platforms. In addition to our commercial-stage business, we have renewed our focus on our high-value therapeutics pipeline. The plans for continuing to move the programs forward are rapidly taking shape," said Anish Bhatnagar, M.D., Chief Executive Officer of Capnia. "The second quarter was marked by the commencement of our first clinical trial evaluating our proprietary nasal, non-inhaled carbon dioxide (nasal CO<sub>2</sub>) technology for the treatment of patients with cluster headache. We also successfully secured access to up to \$10 million through a stock purchase agreement with Aspire Capital which provides us with the resources necessary to fund the development of our pipeline. Looking ahead, we expect to initiate a clinical trial evaluating nasal CO<sub>2</sub> for treatment of trigeminal neuralgia in Fall 2015, and determine a path forward for the allergic rhinitis indication."

"CoSense® is the only product of its kind on the market worldwide, and has the potential to have a significant impact on the practice of medicine. With modest revenue in the first two quarters, we recognize that the CoSense sales ramp has been slower than initially expected," said Edward Ebbers, Chief Commercial Officer of Capnia. "We continue to see substantial interest from physicians for adopting this unique technology which will enable them to adhere to the American Academy of Pediatrics (AAP) guidelines and more optimally diagnose and treat newborns with elevated bilirubin. CoSense still remains in the early phase of adoption, and our belief in its long-term opportunity remains unchanged. Our neonatology-focused commercial team continues to execute on its objective of identifying and qualifying target hospitals, raising awareness and driving adoption, all with the goal of accelerating product sales."

### **Recent Developments and Upcoming Milestones**

#### **CoSense**

**Executing CoSense Commercial Rollout** – During the second quarter, Capnia strengthened its commercial sales team with the appointment of Chief Commercial Officer, Edward Ebbers. This neonatology-focused team is targeting 400 of the top U.S. hospitals based on number of newborn births each year, with the goal of maximizing initial sales of the CoSense device and rapidly growing recurring revenues from sales of per-test consumables. The commercial sales team has profiled and identified key accounts nationwide and the Company is in discussions with several healthcare institutions.

**Developing Sick Cell Disease (SCD) Screening in Developing Countries** – In April, Capnia announced it was awarded a Small Business Innovation Research (SBIR) Phase I grant for \$220,000 by the National Heart, Lung, and Blood Institute (NHLBI), a division of the National Institutes of Health (NIH). This grant will be used to help fund the development of a modified CoSense device that is suitable for field use in developing countries with high prevalence of SCD.

#### **Therapeutics Pipeline**

**Nasal CO<sub>2</sub> for the Treatment of Cluster Headache** – In January 2015, Capnia partnered with Clinvest® to develop a therapeutic product for the treatment of cluster headache. In July 2015, Capnia announced the commencement of a pilot clinical trial evaluating nasal CO<sub>2</sub> in approximately 25 patients with episodic cluster headaches. The primary efficacy endpoint of the trial is the change in headache pain intensity from pre-treatment to post treatment. Capnia expects to report top-line data from this trial in 2016.

**Nasal CO<sub>2</sub> for the Treatment of Trigeminal Neuralgia (TN)** – Capnia has submitted an Investigational New Drug (IND) application to the U.S. Food and Drug Administration (FDA) for use of nasal CO<sub>2</sub> for the symptomatic treatment of TN. The Company is expecting to initiate a pilot clinical trial evaluating nasal CO<sub>2</sub> in patients with TN in Fall 2015. Capnia is also in discussions with the FDA regarding Orphan Drug Designation for nasal CO<sub>2</sub> in this same indication. The use of Capnia's nasal CO<sub>2</sub> technology for the symptomatic treatment of TN is supported by preclinical and clinical data demonstrating that CO<sub>2</sub> may inhibit sensory nerve activation and the subsequent release of neuropeptides, potentially alleviating trigeminally-mediated pain.

**Nasal CO<sub>2</sub> for the Treatment of Allergic Rhinitis (Serenz™)** – To date, Capnia has conducted studies with nasal CO<sub>2</sub> in 975 patients across six randomized, controlled clinical trials. In the clinical trials to date, nasal CO<sub>2</sub> has shown a large effect size, an onset of effect within 30 minutes, and is well-tolerated. Capnia expects to clarify the regulatory approval pathway for allergic rhinitis in the U.S. with the FDA by the end of 2015, and subsequently, will seek to secure partnerships or continue development.

### **Second Quarter 2015 Financial Results**

Total revenue recognized in the three and six months ended June 30, 2015 was \$97,000 and \$119,000, respectively. There was no revenue recognized in the three and six months ended June 30, 2014.

Research and development expenses in the three and six months ended June 30, 2015 were \$1.2 million and \$2.1 million, respectively, compared to \$0.5 million and \$0.9 million for the same periods in 2014. The increase was primarily due to employee related expenses, including stock based

compensation expense, as a result of increased headcount in the three and six months ended June 30, 2015 versus the same periods in 2014.

Sales and marketing expenses in the three and six months ended June 30, 2015 were \$0.5 million and \$0.8 million, respectively, compared to \$12,000 for the same periods in 2014. The increase was primarily due to employee related costs associated with hiring a Chief Commercial Officer and salesforce and expenses related to commercialization activities for CoSense.

General and administrative expenses in the three and six months ended June 30, 2015 were \$1.4 million and \$2.7 million, compared to \$0.7 million and \$1.1 million for the same periods in 2014. The increase was primarily due to an increase in consulting costs and employee related costs resulting from increased headcount, including stock based compensation expense of \$0.5 million in the six months ended June 30, 2015 versus \$16,000 in the six months ended June 30, 2014. The year over year period increases were also due to costs of being a public company.

Interest expense, net, for the three and six months ended June 30, 2015 was zero and \$1,000, respectively, a decrease of \$0.7 million and \$1.1 million compared to the same periods in 2014. This decrease was primarily due to debt balances from the 2010/2014 convertible notes outstanding in the first two quarters of 2014 that were converted to equity as of November 18, 2014.

The change in fair value of warrants income for the three months ended June 30, 2015 was \$4.9 million, which represents a decrease in the fair value of the Series A, Series B and Series C warrants compared to the value of the warrants at March 31, 2015. For the six months ended June 30, 2015 the change in value of warrants expense was \$1.2 million, which represents an increase in the value of the Series A and Series B warrants compared to the value of the warrants at December 31, 2014.

The inducement charge for Series C Warrants for the six months ended June 30, 2014 was \$3.1 million compared to zero for the same period in 2014. The increase was due to the issuance of Series C Warrants in the first quarter of 2015 that were treated as an inducement.

Net income for three months ended June 30, 2015 was \$1.9 million, or \$0.25 per share, compared to a net loss of \$2.8 million, or a loss of \$5.21 per share, for the second quarter of 2014. Net income in the second quarter was due to \$4.9 million of income from the change in fair value of warrants. Net loss for the six months ended June 30, 2015 was \$9.8 million, or a loss of \$1.35 per share, compared to a net loss of \$3.6 million, or a loss of \$6.77 per share, for the same period in 2014.

Cash and cash equivalents at June 30, 2015 totaled \$7.5 million, compared to \$8.0 million at December 31, 2014.

#### **About Cluster Headache**

Cluster headaches affect approximately 0.2% of the population, and are characterized by recurring bouts of excruciating pain in one side of the head. Episodes of pain typically last from 15 minutes to three hours. They can occur several times a day over several months before remission. However, the same pattern often recurs multiple times over their lifetime. Approximately 10-15% of cluster headache patients have "chronic" cluster headache, with continuing pain and no remission. The pain of cluster headache may be significantly greater than other conditions, such as severe migraine.

#### **About Trigeminal Neuralgia**

Trigeminal neuralgia (TN) is a clinical condition characterized by debilitating pain in regions of the face innervated by one or more divisions of the trigeminal nerve. The pain is typically described as intense, sharp and stabbing, and is often described as one of the most painful conditions known to humans. It may develop without apparent cause or be a result of another diagnosed disorder, including multiple sclerosis and herpes zoster.

#### **About Allergic Rhinitis**

Allergic rhinitis (AR), which is commonly and colloquially referred to as "allergies," is characterized by symptoms that are often episodic and include nasal congestion, itching, sneezing and runny nose. It is one of the most common ailments in the western world and is growing rapidly, making AR one of the largest potential pharmaceutical markets. According to GlobalData, approximately 39 million Americans suffer from AR and its prevalence is growing rapidly. The most common AR drug therapies include antihistamines and intranasal steroids, but these products have significant limitations and AR sufferers remain dissatisfied with the available treatments.

#### **About Nasal CO<sub>2</sub> Technology**

Capnia's therapeutic technology uses nasal, non-inhaled CO<sub>2</sub>, delivered at a low-flow rate into the nasal cavity. The potential indications include alleviation of symptoms of allergies as well as trigeminally mediated pain disorders such as cluster headache, migraine and trigeminal neuralgia (TN). Capnia has completed multiple clinical trials for the treatment of the symptoms of allergic rhinitis as well as conditions such as migraine using this technology. The use of Capnia's nasal CO<sub>2</sub> product for the treatment of cluster headache, migraine and TN is supported by preclinical and clinical data demonstrating that CO<sub>2</sub> may inhibit sensory nerve activation, subsequent release of neuropeptides and alleviate trigeminally mediated pain.

#### **About Capnia**

Capnia, Inc. develops and commercializes novel products based on its proprietary technologies for precision metering of gas flow. Capnia's lead product CoSense® is based on the Sensalyze™ Technology Platform. It is a portable, non-invasive device that rapidly and accurately measures carbon monoxide (CO) in exhaled breath. CoSense has 510(k) clearance for sale in the U.S. and has received CE Mark certification for sale in the European Union. CoSense is used for the monitoring of CO from internal sources (such as hemolysis, a dangerous condition in which red blood cells degrade rapidly), as well as external sources (such as CO poisoning and smoke inhalation). The initial target market is newborns with jaundice that are at risk for hemolysis, comprising approximately three million births in the U.S. and European Union. Capnia's proprietary therapeutic technology uses nasal, non-inhaled CO<sub>2</sub> and is being evaluated to treat the symptoms of allergies, as well as the trigeminally-mediated pain conditions such as cluster headache, trigeminal neuralgia and migraine.

#### **Forward-Looking Statements**

This press release contains forward-looking statements that are subject to many risks and uncertainties. Forward-looking statements include statements regarding our intentions, beliefs, projections, outlook, analyses or current expectations concerning, among other things, our ongoing and planned product development and renewed focus on our therapeutic business.

We may use terms such as "believes," "estimates," "anticipates," "expects," "plans," "intends," "may," "could," "might," "will," "should," "approximately" or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Although we believe that we have a reasonable basis for each forward-looking statement contained herein, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this presentation. As a result of these factors, we cannot assure you that the forward-looking statements in this presentation will prove to be accurate. Additional factors that could materially affect actual results can be found in Capnia's Form 10-K filed with the Securities and Exchange Commission on March 13, 2015, including under the caption titled "Risk Factors." Capnia expressly disclaims any intent or obligation to update these forward looking statements, except as required by law.

**Capnia, Inc.**

**Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**

**(In thousands, except share and per share amounts)**

**(unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Government grant revenue	\$ 65	--	\$ 65	--
Product revenue	32	--	54	--
Total Revenue	97		119	
Cost of product revenue	22	--	40	--
Gross Profit	75	--	79	--
Expenses				
Research and Development	1,181	549	2,059	921
Sales and Marketing	506	12	772	12
General and Administrative	1,432	746	2,718	1,058
Total expenses	3,119	1,307	5,549	1,991
Operating income (loss)	(3,044)	(1,307)	(5,470)	(1,991)
Interest and other income (expense)				
Interest expense, net	--	(670)	(1)	(1,058)
Change in fair value of warrant liabilities	4,925	(816)	(1,249)	(578)
Inducement charge for Series C warrants	--	--	(3,050)	--
Net income (loss)	\$ 1,881	\$ (2,793)	\$ (9,770)	\$ (3,627)
Net income (loss) per common share				
Basic	\$ 0.25	\$ (5.21)	\$ (1.35)	\$ (6.77)
Diluted	\$ 0.25	\$ (5.21)	\$ (1.35)	\$ (6.77)
Weighted-average common shares outstanding used to calculate net income (loss) per common share				
Basic	7,517,794	535,685	7,243,163	535,685
Diluted	7,630,644	535,685	7,243,163	535,685

**Capnia, Inc.**

**Condensed Consolidated Balance Sheets**

**(In thousands, except share and per share amounts)**

**(unaudited)**

	As of June 30, 2015	As of December 31, 2014 (Revised)
<b>Assets</b>		
Current Assets		
Cash & Cash Equivalents	\$ 7,530	\$ 7,957
Restricted Cash	35	20
Accounts Receivable	12	--
Inventory	277	109
Prepaid expenses and other current assets	311	252
Total Current Assets	8,165	8,338
Long-term Assets		
Property & Equipment, net	43	58
Other Assets	562	--
Total Assets	\$ 8,770	\$ 8,396
<b>Liabilities and stockholders' deficit</b>		
Current Liabilities		
Accounts Payable	\$ 989	\$ 987
Accrued expenses	1,223	201
Common Stock issuable	112	--
Series B Warrant Liability	11,025	--
Line of Credit and Accrued Interest	--	102
Total Current Liabilities	13,349	1,290
Long-Term Liabilities		
Series A Warrant Liability	2,159	857
Series B Warrant Liability	--	17,439
Series C Warrant Liability	894	--
Total Long-Term Liabilities	3,053	18,296
Total Liabilities	16,402	19,586
Stockholder's deficit		
Common stock, \$0.001 par value, 100,000,000 shares authorized at June 30, 2015 and December 31, 2014, 7,595,175 and 6,769,106 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	8	7
Additional paid-in-capital	72,469	59,141
Accumulated deficit	(80,109)	(70,338)
Total stockholders' deficit	(7,632)	(11,190)
Total liabilities and stockholders' deficit	\$ 8,770	\$ 8,396

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