Capnia Reports Fourth Quarter and Full Year 2016 Financial Results

March 15, 2017

REDWOOD CITY, Calif., March 15, 2017 (GLOBE NEWSWIRE) -- Capnia, Inc. (NASDAQ:CAPN), focused on the development and commercialization of novel therapeutics for the treatment of rare diseases, today announced financial results for the fourth quarter and twelve months ended December 31, 2016.

"During the fourth quarter, we embarked on a bold new strategic direction for our Company by signing a definitive agreement to merge with Essentialis, creating a dynamic new organization dedicated to developing therapies for rare diseases where there is significant unmet need," said Anish Bhatnagar, M.D., Chief Executive Officer of Capnia. "With the merger now complete, we look forward to advancing our lead asset, diazoxide choline controlled-release (DCCR) into Phase II/III clinical development for the treatment of Prader-Willi Syndrome (PWS), a rare and often fatal metabolic condition. DCCR is a once-daily oral tablet that has shown great potential in addressing the hallmark symptoms of PWS, most notably hyperphagia. We are eager to initiate this development program as we work to become a leader in the rare disease space."

Fourth Quarter 2016 and Recent Highlights

Completed Merger with Essentialis to Create a Rare Disease Therapeutics Company

- ***Advancing Lead Clinical Development Asset DCCR for PWS.*** Through the merger with Essentialis, Capnia acquired DCCR, currently in clinical development for the treatment of PWS. In a Phase II clinical study, DCCR demonstrated a significant reduction of hyperphagia, a symptom of critical concern to the PWS patient community. Coupled with a well-established safety profile, DCCR is a promising late-stage asset on track for a Phase II/III trial initiation later this year.

- ***Strengthened Balance Sheet.*** Concurrent with the closing of the merger in early March, Capnia raised $10.0 million through an offering of Capnia common stock to prior investors in Essentialis, as well as new investors, which will be sufficient to fund development of DCCR through key milestones.

Legacy Neonatal and Therapeutic Products and Product Candidates

- ***Initiated Review of Strategic Alternatives for Legacy Businesses.*** Following the merger announcement, Capnia initiated a comprehensive review of strategic alternatives for its legacy products and product candidates, including Serenz® Allergy Relief, CoSense® ETCO Monitor, and its portfolio of innovative pulmonary resuscitation solutions for the neonatal market.

Fourth Quarter 2016 Financial Results

Total revenue recognized in the three months ended December 31, 2016 was $0.3 million, compared to $0.2 million for the same period in 2015.

Research and development expenses in the fourth quarter of 2016 were $1.0 million, compared to $1.3 million for the same period in 2015. The decrease was primarily due to a decrease in compensation expense, as a result of a reduction in personnel.

Sales and marketing expenses in the fourth quarter of 2016 were $0.2 million, compared to $0.5 million for the same period in 2015. The decrease was primarily due to a decrease of direct sales personnel.

General and administrative expenses in the fourth quarter of 2016 were $1.5 million, compared to $1.7 million for the same period in 2015. The decrease was primarily due to a decrease in compensation expense, as a result of a reduction in personnel.

The change in fair value of warrants income for the three months ended December 31, 2016 was $0.3 million, which represents a decrease in the fair value of the Series A and Series C Warrants compared to the value of the warrants at September 30, 2016. The change in fair value of warrants income in the fourth quarter of 2015 was $0.7 million, which represented a decrease in the fair value of the Series A, Series B and Series C Warrants.

Net loss for the fourth quarter of 2016 was $2.6 million, or a loss of $0.16 per share, compared to a net loss of $2.8 million, or a loss of $0.29 per share, for the fourth quarter of 2015.

Full Year 2016 Financial Results

Total revenue recognized for the year ended December 31, 2016 was $1.5 million, compared to $0.6 million for the same period in 2015.

Research and development expenses for the year ended December 31, 2016 increased 14% to $5.2 million, compared to $4.5 million for the same period in 2015. The increase was primarily due to increases of compensation expense of $0.5 million and consulting expense of $0.1 million.

Sales and marketing expenses for the year ended December 31, 2016 decreased 6% to $1.6 million versus $1.7 million for the same period in 2015. The decrease was primarily due to a decrease of direct sales personnel concurrent with implementation of a distributor agreement.

General and administrative expenses for the year ended December 31, 2016 increased 10% to $6.7 million, compared to $6.1 million for the same period in 2015. The increase was primarily due to an increase of legal and related expenses of $0.5 million and $0.1 million of compensation expense.

The change in fair value of warrants for the year ended December 31, 2016 was income of $1.7 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 December 31, 2015. For the year ended December 31, 2015 the change in fair value of warrants was an expense of $0.5 million.

Net loss for the twelve months ended December 31, 2016 was $12.1 million, or a loss of $1.01 per share, compared with a net loss of $15.9 million, or a loss of $1.69 per share, for the same period in 2015.

Cash and cash equivalents at December 31, 2016 totaled $2.7 million, compared to $5.5 million at December 31, 2015.

About PWS

PWS is a rare and complex genetic disorder affecting appetite, growth, metabolism, cognitive function and behavior. In both the US, it is estimated that one in 12,000 to 15,000 people has PWS and there are currently no approved therapies to treat the appetite, metabolic, cognitive function, or behavioral aspects of the disorder. This disorder is typically characterized by low muscle tone, short stature (when not treated with growth hormone), the accumulation of excess body fat, developmental delays, incomplete sexual development, cognitive disabilities, behavioral problems and hyperphagia, a chronic feeling of insatiable hunger. Hyperphagia, in the absence of effective limitations to access to food, can lead to morbid obesity. In a global survey conducted by the Foundation for Prader-Willi Research, 96.5% of respondents (parent and caregivers) rated hyperphagia as the most important or a very important symptom to be relieved by a new medicine. DCCR has received Orphan Drug Designation from the US FDA for the treatment of PWS.

About Diazoxide Choline Controlled-Release Tablet

Diazoxide choline controlled-release tablet is a novel, proprietary controlled-release, crystalline salt formulation of diazoxide, which is administered once-daily. The parent molecule, diazoxide, as an oral suspension, has been used for decades in thousands of patients in a range of diseases in neonates, children and/or adults. DCCR offers a significant advantage over the 2-3 times a day dosing paradigm, which is not suitable for patients with PWS. The DCCR development program is supported by positive data from two completed Phase II clinical studies and six completed Phase I clinical studies in various metabolic indications, as well as a pilot study in PWS patients. In the PWS pilot study, DCCR showed promise in addressing the hallmark symptoms of PWS, most notably hyperphagia, which is the unrelenting hunger that severely diminishes the quality of life for patients and their families.

About Capnia

Capnia is focused on the development and commercialization of novel therapeutics for the treatment of rare diseases. The Company is currently advancing its lead candidate, DCCR, a once-daily oral tablet for the treatment of Prader-Willi Syndrome (PWS), into Phase II/III clinical development during 2017. Capnia also markets innovative medical devices, including the CoSense® End-Tidal Carbon Monoxide (ETCO) monitor, which measures ETCO and is used by hospitals to detect hemolysis in newborns, and the NeoForce portfolio of neonatal pulmonary resuscitation solutions. For more information, please visit www.capnia.com.

Capnia's 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 ability to initiate the Phase II/III trial in the second half of 2017.

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 15, 2017, 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 Balance Sheets

(in thousands, except shares and per share amounts)

	As of December 31, 2016	As of December 31, 2015
Assets		
Current Assets		
Cash & Cash Equivalents	$ 2,726	$ 5,495
Restricted Cash	35	35
Accounts Receivable	133	156
Inventory	660	551
Prepaid expenses and other current assets	247	167
Total Current Assets	3,801	6,404

Long-term Assets		
Property & Equipment, net	103	86
Goodwill	718	718
Other Assets	126	76
Other Intangible Assets, net	817	917
Total Assets	$ 5,565	$ 8,201
Liabilities and stockholders' equity		
Current Liabilities		
Accounts Payable	$ 538	$ 695
Accrued Compensation and other current liabilities	1,169	1,633
Series B Warrant Liability	-	865
Total Current Liabilities	1,707	3,193
Long-Term Liabilities		
Series A Warrant Liability	194	1,213
Series C Warrant Liability	86	462
Other Liabilities	143	109
Total Long-Term Liabilities	423	1,784
Total Liabilities	2,130	4,977
Stockholders' equity		
Preferred Stock, $.001 par value, 10,000,000 shares authorized:		
Series A convertible preferred stock, 10,000 shares designated zero and 4,555 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	-	-
Series B convertible preferred stock, 13,780 shares designated 12,780 and zero shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	-	-
Common stock, $0.001 par value, 100,000,000 shares authorized, 16,786,952 and 14,017,909 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively	17	14
Additional paid-in-capital	101,730	89,457
Accumulated deficit	(98,312)	(86,247)
Total stockholders' equity	3,435	3,224
Total liabilities and stockholders' equity	$ 5,565	$ 8,201

Capnia, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(in thousands, except shares and per share amounts)

	Three months ended December 31,		**Year Ended December 31,**	
	2016	**2015**	**2016**	**2015**
Product revenue	$ 284	$ 242	$ 1,451	$ 388
Government grant revenue	-	-	-	220
Total Revenue	284	242	1,451	608
Cost of product revenue	222	257	1,509	353
Gross Profit	62	(15)	(58)	255
Expenses				
Research and Development	954	1,284	5,185	4,536
Sales and Marketing	174	498	1,631	1,737
General and Administrative	1,890	1,709	6,736	6,141

Total expenses	3,018	3,491	13,552	12,414
Operating loss	(2,956)	(3,506)	(13,610)	(12,159)
Interest and other income (expense)				
Other income (expense)	20	-	(7)	(184)
Cease-use expense	-		(94)	-
Change in fair value of warrant liabilities	344	661	1,667	(516)
Inducement charge for Series C warrants	-	-	-	(3,049)
Loss before provision for income taxes	$ (2,592)	$ (2,845)	$ (12,044)	$ (15,908)
Provision for deferred taxes	$ 21		$ 21	-
Net loss	$ (2,613)	$ (2,845)	(12,065)	(15,908)
Loss on extinguishment of convertible preferred stock	-	-	3,651	-
Net loss applicable to common stockholders	$ (2,613)	$ (2,845)	$ (15,716)	$ (15,908)
Net loss per common share				
basis and diluted net loss per common share	$ (0.16)	$ (0.22)	$ (1.00)	$ (1.69)
Weighted-average common shares				
outstanding used to calculate				
basic and diluted net loss per common share	15,935,865	13,112,612	15,507,484	9,425,880

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