

*March 21, 2017***Capnia, Inc.**  
**(Nasdaq/CAPN/\$0.73/Not rated)***Sherry Grisewood, CFA*  
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**Year-end Results Reported**

Capnia has now reported its year-end 2016 results. The Company did not hold an investor call to discuss the results. After reviewing the 10K, we conclude the Company's results were generally in line with the indications given by management in our 1x1 meeting in February. Revenue for the fourth quarter and full-year 2016 was reported at \$284,000 and \$1,451,000, respectively. Revenue for the fourth quarter 2016 and the \$843,000 increase in revenue for the full year of 2016 was largely due to the full year inclusion of sales of the NeoForce (NFI) products. This compares to revenue for the year ended December 31, 2015 of \$608,000, wherein the Company recognized \$220,000 of government grant revenue and \$388,000 of product revenue from sales of **CoSense®**, Precision Sampling Sets and NFI products, of which \$279,000 was related to NFI products subsequent to the acquisition of the NeoForce assets in September 2015.

Operating expenses for the fourth quarter were reported at \$3,018,000, about \$473,000 less than the 2015 period while operating expenses for the full year of 2016 rose to \$13,610,000 from \$12,159,000. The increase year-over-year was largely attributable to increases in research and development expense and general and administrative expenses, offset by a decline in sales and marketing expense. During the fourth quarter ended December 31, 2016, Capnia undertook a reduction in employees, including a decrease in direct sales personnel, which reduced sales and marketing as well as general and administrative expenses for the quarter. After taking effect for the change in the fair value of warrants, Capnia reported a loss of \$12,065,000 for 2016 versus a net loss of \$15,908,000 or \$1.69 per share for 2015. After a charge for the extinguishment of convertible preferred stock, Capnia's reported net loss for 2016 was \$15,716,000 or \$1.01 per share. Capnia reported cash and equivalents of \$2,700,000 at December 31, 2016. The subsequent concurrent merger financing raised an additional \$10,000,000 this month.

**Shareholder Suit Resolved**

According to information disclosed in the 10K, Capnia reached a resolution with regard to the shareholder lawsuit brought against the Company in February 2017. The Company noted that, in response to the shareholder lawsuit, certain supplemental disclosures were made in its 8-K filing dated February 28, 2017 in connection with the plaintiff's agreement to voluntarily dismiss said plaintiff's claims in the lawsuit. The stipulation of dismissal is pending with the court. In addition, Capnia also agreed to pay \$175,000 for dismissal of the lawsuit. This amount was accrued as a current liability on the balance sheet as of December 31, 2016 and recorded as an expense in general and administrative expense on the statement of operations for the year ended December 31, 2016.

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

	Three months ended		Year Ended	
	December 31,		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

Source: Capnia Press Release 3/15/17

**Focus Turns to the Essentialis Clinical Asset**

As highlighted in our prior Company Note, Capnia has initiated a review of strategic alternatives for monetizing the legacy businesses. In the meantime, the Company disclosed its strengthened distribution for the legacy products, including distribution partners for **CoSense** now in China, India, Canada, Turkey, Denmark, Qatar and Saudi Arabia. The Company is continuing its presence in the U.K. and Ireland with its seasonal allergic rhinitis product, **Serenz®**. Capnia's current business strategy contemplates relying primarily on its device and retail pharmacy distribution partners to effect legacy product sales while internal resources are directed towards advancing its now lead product, diazoxide choline controlled-release (DCCR) formulation for the treatment of Prader-Willi Syndrome.

**Upcoming 2017 Anticipated Capnia Corporate Milestones**

- 1) Schedule an FDA “guidance” meeting to discuss the clinical path for DCCR
- 3) Initiate the Prader-Willi Syndrome Phase IIb/III clinical trial in 2H 2017
- 4) Continue to assess strategic alternatives for the legacy marketed and in-development products
- 5) Secure orphan drug designation for DCCR in additional indications

**Comment**

Now that the merger is complete, the Company’s cash coffers “topped off” and the shareholder lawsuit resolved, Capnia management will be transitioning to managing a clinical development company. We expect investors will be likely want to see timely execution on the early anticipated milestones before wholeheartedly embracing Capnia’s new strategic focus. *SG*



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Market Outperform (Buy)	2	33%	1	50%
Market Perform (Neutral)	0	0%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Rating Suspensions*	4	67%	4	100%
<b>Total</b>	<b>6</b>	<b>100%</b>	<b>5</b>	<b>83%</b>

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