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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 10-K**

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**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the year ended December 31, 2016

or

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 001-36715

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**NEVRO CORP.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

1800 Bridge Parkway  
Redwood City, California 94065  
(Address of principal executive offices and zip code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of exchange on which registered</u>
Common Stock, par value \$0.001 per share	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act of 1934 (the "Exchange Act"). Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of June 30, 2016, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$1,652 million based on the closing sale price for the registrant's common stock on The New York Stock Exchange on that date of \$73.76 per share.

As of February 14, 2017, there were 29,183,202 shares of the registrant's Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for the registrant's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein. The Proxy Statement will be filed within 120 days of the registrant's fiscal year ended December 31, 2016.

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**NEVRO CORP.**  
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## PART I

### ITEM 1. BUSINESS

#### Overview

We are a global medical device company focused on providing innovative products that improve the quality of life of patients suffering from chronic pain. We have developed and commercialized the Senza spinal cord stimulation (SCS) system, an evidence-based neuromodulation platform for the treatment of chronic pain. Our proprietary paresthesia-free HF10 therapy, delivered by our Senza system, was demonstrated in our SENZA-RCT study to be superior to traditional SCS therapy with it being nearly twice as successful in treating back pain and 1.5 times as successful in treating leg pain when compared to traditional SCS therapy. Comparatively, traditional SCS therapy has limited efficacy in treating back pain and is used primarily for treating leg pain, limiting its market adoption. Our SENZA-RCT study, along with our European studies, represents what we believe is the most robust body of clinical evidence for any SCS therapy. We believe the superiority of HF10 therapy over traditional SCS therapies will allow us to capitalize on and expand the approximately \$1.6 to \$1.8 billion existing global SCS market by treating back pain in addition to leg and pain without paresthesia.

We launched Senza commercially in the United States in May 2015, after receiving a label from the U.S. Food and Drug Administration (FDA) which supports the superiority of our HF10 therapy over traditional SCS. The Senza system has been commercially available in certain European markets since November 2010 and in Australia since August 2011. We have experienced consistent significant revenue growth in the United States since commercial launch and, effective January 1, 2016, received transitional pass-through payment under the Medicare hospital outpatient prospective payment system. In addition, on the basis of our strong clinical evidence, Senza is currently reimbursed by each of the top 10 national insurance providers. In early 2017, we commenced a controlled commercial launch of our surgical lead, marketed as the Surpass™ surgical lead, which we believe will provide us access to an additional approximately 30% of the U.S. SCS market. The tables below sets forth our revenue from U.S. and international sales the past two years on a quarterly basis and total revenue for each of the past three years.

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
	(in millions)							
Revenue from U.S. sales	N/A	\$ 0.1	\$ 4.5	\$ 19.8	\$ 29.5	\$ 40.6	\$ 47.2	\$ 56.0
Revenue from international sales	9.7	11.3	10.9	13.3	12.2	14.8	13.7	14.5
Total sales revenue	<u>\$ 9.7</u>	<u>\$ 11.4</u>	<u>\$ 15.4</u>	<u>\$ 33.1</u>	<u>\$ 41.7</u>	<u>\$ 55.4</u>	<u>\$ 60.9</u>	<u>\$ 70.5</u>
	<u>2014</u>			<u>2015</u>		<u>2016</u>		
	(in millions)							
Total revenue	\$ 32.6			\$ 69.6		\$ 228.5		

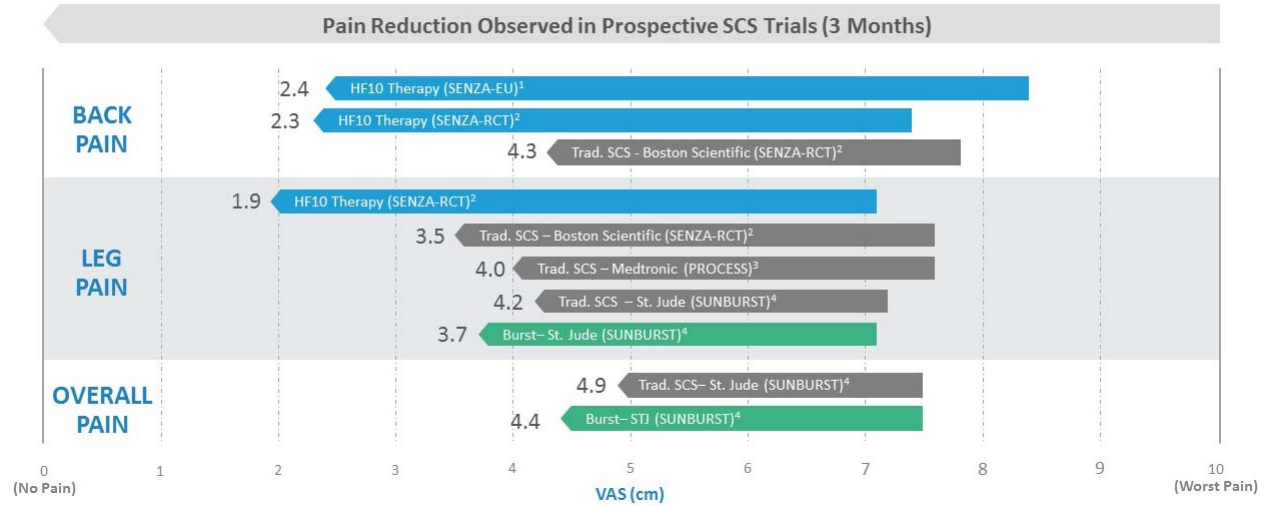
With a primary focus on treating leg pain, the global market for SCS therapy was estimated to be approximately \$1.6 to \$1.8 billion in 2016 and is expected to grow to approximately \$2.5 billion per year by 2020. The United States represents approximately 80% of this global market due in part to governmental reimbursement restraints in international markets. We believe that due to factors such as an aging population and an increasing number of failed back surgeries, there is an opportunity for an SCS therapy that effectively treats back pain to create an incremental opportunity approximately the size of the existing SCS market over time.

We believe our HF10 therapy will continue to both take share of and expand the SCS therapy market due to HF10 therapy being a paresthesia-free therapy and having superior efficacy when compared to traditional SCS therapies. Traditional SCS therapy generates paresthesia, a sensation typically experienced as tingling, numbness and buzzing, which overlaps the pain area. Paresthesia is often considered unpleasant or uncomfortable, sometimes causes a shocking or jolting sensation with changes in posture and is a continuous reminder of the patient's chronic condition. Compared to traditional SCS therapy which typically operates at 50 Hz to 60 Hz, HF10 therapy delivers spinal cord stimulation at a lower amplitude and a higher frequency waveform of 10,000 Hz. In addition, HF10 therapy relies on consistent anatomical placement of the stimulation leads across patients, thus reducing procedure variability relative to traditional SCS therapy which requires individualized lead placement to properly map

paresthesia coverage. We believe the ability of HF10 therapy to deliver pain relief without paresthesia provides a substantial benefit over traditional SCS therapy to patients and physicians.

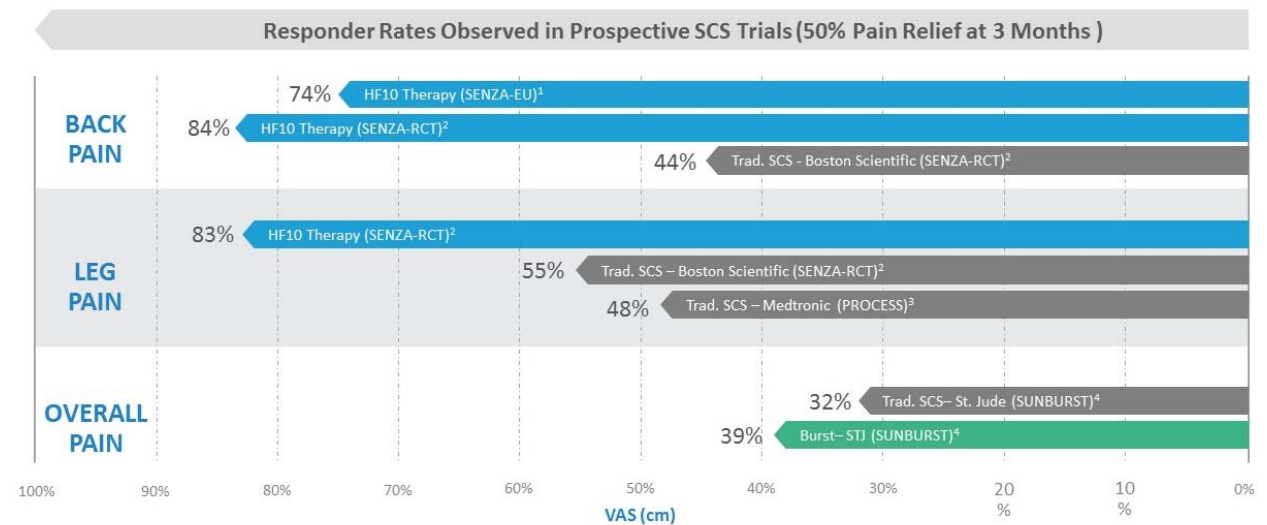
We believe the clinical results from our SENZA-RCT study, along with our European studies, position us with superior and compelling efficacy data. The following charts provide a comparison of HF10 therapy in both pain reduction and responder rates against the other prospective Level 1 studies conducted.

## Comparison of Pain Relief Across Prospective, Level I SCS Studies



1. Al-Kaisy A, et. al. Sustained effectiveness of 10 kHz high-frequency spinal cord stimulation for patients with chronic, low back pain: 24-month results of a prospective multicenter study. *Pain Med.* 2014;15:347-354. Internal data on file.
2. Kapural, Leonardo et. al. Novel 10-kHz High-frequency Therapy (HF10 Therapy) Is Superior to Traditional Low-frequency Spinal Cord Stimulation for the Treatment of Chronic Back and Leg Pain: The SENZA-RCT Randomized Controlled Trial. *Anesthesiology* Vol. 123 No 4, October 2015.
3. Kumar K et al., Spinal cord stimulation versus conventional medical management for neuropathic pain: A multicentre randomised controlled trial in patients with failed back surgery syndrome, *Pain* (2007), doi:10.1016/j.pain.2007.07.028. 6-month data shown.
4. St. Jude Medical Proclaim™ Implantable Pulse Generator Clinician's Manual, Models 3660, 3662, 3665, 3667. Published on www.sjm.com October 2016.

## Comparison of Responder Rates Across Prospective, Level I SCS Studies



1. Al-Kaisy A, et. al. Sustained effectiveness of 10 kHz high-frequency spinal cord stimulation for patients with chronic, low back pain: 24-month results of a prospective multicenter study. *Pain Med.* 2014;15:347-354. Internal data on file.
2. Kapural, Leonardo et. al. Novel 10-kHz High-frequency Therapy (HF10 Therapy) Is Superior to Traditional Low-frequency Spinal Cord Stimulation for the Treatment of Chronic Back and Leg Pain: The SENZA-RCT Randomized Controlled Trial. *Anesthesiology* Vol. 123 No 4, October 2015.
3. Kumar K et al., Spinal cord stimulation versus conventional medical management for neuropathic pain: A multicentre randomised controlled trial in patients with failed back surgery syndrome, *Pain* (2007), doi:10.1016/j.pain.2007.07.028. 6-month data shown.
4. St. Jude Medical Proclaim™ Implantable Pulse Generator Clinician's Manual, Models 3660, 3662, 3665, 3667. Published on www.sjm.com October 2016.

In November 2016, we filed a lawsuit for patent infringement against Boston Scientific Corporation and Boston Scientific Neuromodulation Corporation (collectively, “Boston Scientific”) asserting that Boston Scientific is infringing our patents covering inventions related to our HF10 therapy and the Senza system. Following our lawsuit, in December 2016, Boston Scientific countered with a patent infringement lawsuit against us, alleging that we infringed Boston Scientific’s patents covering SCS technology related to stimulation leads, rechargeable batteries and telemetry. Each of the lawsuits seek preliminary and permanent injunctive relief against further infringement as well as damages and attorney fees.

We believe we have built competitive advantages through our proprietary technology, clinical evidence base, strong track record of execution with over 15,000 patients implanted with Senza, extensive intellectual property and a proven management team with substantial neuromodulation experience. With the well-demonstrated superior efficacy of our HF10 therapy, we aim to continue to drive adoption and penetration in the U.S. market, which represents the largest opportunity in SCS, and expand patient access to HF10 therapy by investing in the development of evidence for new indications such as chronic upper limb and neck pain, painful neuropathies and non-surgical refractory back pain.

## **Market Overview**

### ***Existing Treatments for Chronic Pain and Limitations***

Chronic pain has been defined as pain that lasts longer than the time required for tissues to heal, which is often considered to be three months. Patients who present with chronic pain are typically placed on a treatment progression plan. Initial medical management typically includes behavioral modification, exercise, physical therapy and over-the-counter analgesics and non-steroidal anti-inflammatory drugs. When early stage medical management is not sufficient for the treatment of chronic leg and back pain, patients may progress to interventional techniques including steroid injections or nerve blocks. Patients who do not respond to these more conservative treatments are considered candidates for more advanced therapies. These more advanced therapies include spine surgery, treatment with oral opioids and SCS. Spine surgery, while a common invasive procedure, can result in complications such as Failed Back Surgery Syndrome, or FBSS, a condition where pain persists despite the procedure, and spinal surgery often fails to treat certain types of chronic pain such as severe neuropathic back pain. Oral opioids, while reducing the patient’s perception of pain, lack clinical evidence to support long-term usage and can cause multiple complications and side-effects including nausea, vomiting and dizziness. Further, opioids present a high risk of addiction and abuse.

### ***Traditional Spinal Cord Stimulation and Limitations***

SCS is a type of neuromodulation technology that utilizes an implantable, pacemaker-like device to deliver electrical impulses to the spinal cord to treat chronic pain. Traditional SCS therapy is designed to induce paresthesia, a sensation typically experienced as tingling, numbness and buzzing, which overlaps the area of pain with the intent of masking pain perception. The electrical pulses are delivered by small electrodes on leads that are placed near the spinal cord and are connected to a battery-powered generator implanted under the skin. Traditional SCS therapy is currently indicated as a treatment for chronic pain of the trunk and limbs in patients who failed conventional medical management. Traditional SCS therapy is considered to be a minimally invasive and reversible therapy that may provide greater long-term benefits over more invasive surgical approaches or opioids. The most common use for traditional SCS therapy is for neuropathic pain conditions such as FBSS.

Traditional SCS therapy generally consists of two phases, an evaluation period, also called the trial period, which typically lasts several days, followed by a permanent implant for those patients who experience a successful trial period. The trial period involves a percutaneously placed insulated wire, called a lead, which a physician implants near the spinal cord using a needle. During the trial period, a temporary external system is used by patients and physicians for evaluating whether traditional SCS therapy is effective. If the trial period is successful, a permanent system is implanted in the patient. The success criterion is typically an approximate 50% reduction in pain during the evaluation period. For those patients that proceed to the permanent implant procedure, we believe that approximately 30% of U.S. procedures are completed using surgical leads and the remaining are completed using percutaneous leads.

A key part of the permanent system is the implantable pulse generator, or IPG, which is a miniaturized version of the external stimulator. The IPG should provide the patient with multiple years of use and can be either rechargeable or non-rechargeable. Primary cell IPGs, or non-rechargeable IPGs, are used in cases where the patient requires a lower level of stimulation and such systems have a limited life. Rechargeable IPGs, a more recent innovation, can be more expensive but allow for higher levels of stimulation and may last 10 years or more. Due to payor constraints in certain European countries, the transition from primary cell IPGs to rechargeable IPGs has been slow in those markets. In the United States and Australia, most IPGs implanted are rechargeable.

Traditional SCS products have required paresthesia to provide pain relief, and consequently, paresthesia coverage has been used as a surrogate metric for successful pain relief. Paresthesia is often considered unpleasant or uncomfortable and is sometimes made worse by a shocking or jolting sensation with changes in posture. Unpleasant sensations can be caused by lead movement closer to the spinal cord or away from it as the patient moves, resulting in variation in paresthesia intensity. Paresthesia is also a constant reminder of the patient's chronic condition. Due to the distraction of paresthesia, patients with traditional SCS devices are instructed not to drive or operate machinery when the device is active. Medtronic plc, or Medtronic, the current leader in neuromodulation, has released a survey showing that 71% of patients find paresthesia uncomfortable at times. As such, innovation in the SCS market has historically focused on technologies that optimize traditional SCS therapy's ability to create more precise paresthesia fields. Even with successful paresthesia coverage, patients still may not receive pain relief or often lose pain relief after a period of time.

Traditional SCS procedures also require physicians to perform the complex and often time-consuming process of paresthesia mapping. This mapping process requires a patient to be sedated for the lead placement, then awakened and repeatedly questioned in order for the physician to assess paresthesia coverage over the patient's area of pain and reposition and reprogram the leads to redirect the paresthesia. This process creates variability in the procedure and a complicated anesthesia management process, impacting the physician's schedule and patient comfort. The primary objective of traditional SCS therapy is to create a stimulation program that covers the areas of pain without creating paresthesia beyond the pain areas, given that this can be uncomfortable and difficult to tolerate.

## **Our Solution for Chronic Pain**

### ***HF10 Therapy***

Our HF10 therapy is designed to deliver innovative neuromodulation solutions for treating chronic pain based on what we believe to be the best clinical evidence available. By overcoming many of the limitations of traditional SCS therapy, our HF10 therapy offers superior efficacy for patients and provides significant advantages to physicians and hospitals. We believe the advantages of our proprietary HF10 therapy over traditional SCS include:

- **Demonstrated superior efficacy data for both leg and back pain:** In our SENZA-RCT pivotal study, HF10 therapy was demonstrated to provide significant and sustained back pain relief in addition to leg pain relief. HF10 therapy was shown in both number of patients that respond and in treatment efficacy to be superior to traditional SCS therapy as it is nearly twice as successful in treating back pain and 1.5 times as successful in treating leg pain. Our SENZA-RCT study, along with the previously completed European studies, represent what we believe is the most robust body of clinical evidence for any SCS therapy. We believe that the superior efficacy results and robust data provided in our pivotal clinical trials will drive increased adoption of our HF10 therapy among patients, payors and providers and may enable us to gain significant market share in the approximately \$1.6 to \$1.8 billion existing global SCS market, which is primarily based on treating leg pain. In addition, we believe our efficacy data in back pain will allow us to expand the SCS market under current reimbursement regimes by meeting demand from back pain patients who are largely untreated by traditional SCS therapies.
- **Paresthesia free pain relief for patients:** HF10 therapy offers the notable benefit to patients of achieving significant and sustained pain relief without paresthesia, thus enabling our patients to avoid the uncomfortable shocking or jolting sensations commonly associated with paresthesia, and removing a major barrier for many patients who may otherwise benefit from SCS therapy.
- **Anatomical lead placement for physicians.** Since HF10 therapy relies on consistent anatomical lead placement, it removes the cumbersome process of paresthesia mapping that is required by traditional

SCS therapy, reducing variability in the operating procedure and offering a significant benefit to both physicians and hospitals by reducing variability of procedures.

- **Ability to treat a broader group of chronic pain patients:** Our HF10 therapy is a platform technology that we believe can provide treatment benefits for a broader group of chronic pain indications. We are currently investigating the use of HF10 therapy to address additional indications such as chronic upper limb and neck pain, painful neuropathies and non-surgical refractory back pain. Based on analysis from our SENZA-RCT and European studies, we believe HF10 therapy may be an attractive treatment option for some non-surgical refractory back pain patients due to its cost, reversibility and initial trial period. Due to the removal of paresthesia, HF10 may also be an effective therapy for patients with chronic upper limb and neck pain as it will not create the intense discomfort that traditional SCS generates for patients with chronic upper limb and neck pain when leads are placed in the cervical spine.

## Our Growth Strategy

Our mission is to be the neuromodulation leader in the treatment of chronic pain by developing innovative, evidence-based solutions. To accomplish this objective we intend to:

- **Drive adoption of HF10 therapy through a world-class sales and marketing organization:** We will continue to build our worldwide sales organization consisting of direct sales representatives and, in some international markets, a network of distributors and sales agents. In particular, we are continuing to make significant investments in building our U.S. commercial infrastructure and sales force. This is a lengthy process that requires significant investment to recruit and train qualified sales representatives. Following initial training for Senza, our sales representatives typically require lead time in the field to grow their network of accounts and produce sales results. Successfully recruiting and training a sufficient number of productive sales representatives is required to achieve our expected growth rate. As of December 31, 2016, we have 194 hired and trained sales representatives in the field in the United States. Our sales representatives target physician specialties involved in SCS treatment decisions, including neurosurgeons, physiatrists, interventional pain specialists and orthopedic spine surgeons. Further, we expect that our direct sales force will target the approximately 2,400 hospitals and outpatient surgery centers, at which we believe an estimated 90% of SCS procedures in the United States are performed. To complement our sales representatives, we intend for our marketing and reimbursement teams to drive HF10 therapy adoption through creating awareness and demand among additional stakeholders involved in the SCS treatment decision, including third-party payors, hospital administrators, and patients and their families. Internationally, we plan to increase coverage in certain of our existing markets by continuing the expansion of our direct sales force.
- **Expand the existing SCS market by treating back pain:** We believe we are expanding the existing SCS market by delivering a system that provides meaningful treatment for chronic back pain, which we believe represents a significant opportunity in the global SCS market. With traditional SCS therapy, patients who experience predominant back pain are associated with lower levels of treatment success. Consequently, patients with back pain are typically not recommended for treatment with traditional SCS therapy due to the difficulty of achieving and maintaining pain coverage. In contrast to traditional SCS therapy, we believe HF10 therapy is positioned to expand the existing SCS market by effectively treating back pain in addition to leg pain.
- **Communicate the clinically demonstrated, superior efficacy of HF10 therapy to patients, physicians and payors globally:** Given our robust clinical evidence that demonstrates the superior efficacy of our HF10 therapy, we believe we will be able to position our therapy with patients, providers and payors in a differentiated way. Given that our SENZA-RCT pivotal study has demonstrated superiority for both back and leg pain in a head-to-head comparison with traditional SCS, we are able to differentiate HF10 therapy by communicating its superior clinical benefits and advantages to patients, physicians and payors.
- **Invest in research and development to drive innovation:** We are extending our novel and proprietary technologies into a series of product enhancements with the goal of improving the treatment of chronic pain. Product enhancements in development include a next-generation IPG and enhanced MRI capability. Further, we have recently commenced a controlled commercial launch of our new surgical

leads, marketed as the Surpass surgical lead, which we believe will give access to approximately 30% of the U.S. SCS market that we previously did not address without the surgical lead. We believe product enhancements if and when completed will drive continued adoption of our technology platform and further validate the advantages and benefits of our HF10 therapy.

- **Scale our business to achieve cost and production efficiencies:** We plan to improve the efficiency of our third-party manufacturing processes, which we believe will lower our per unit manufacturing cost. We expect to continue to scale our manufacturing operations as we expand Senza sales volumes in the United States.

### ***Growth Opportunities in Other Chronic Pain Indications***

We plan to use our platform technology to develop HF10 therapy for use in other chronic pain indications with significant unmet medical need, including chronic upper limb and neck pain, non-surgical back pain and painful neuropathies. There can be no assurance that we will be successful in developing HF10 therapy for use in other indications or in receiving required regulatory approvals and reimbursement coverage to market Senza and HF10 therapy for use in other indications. Below are three areas where preliminary results have been promising:

#### ***Chronic Upper Limb and Neck Pain***

Chronic neck pain with or without upper limb pain is prevalent in 48% of women and 38% of men in the general adult population, with persistent complaints in 22% of women and 16% of men. Multiple treatments currently exist in the market today, such as epidural injections, but there is a lack of clinically efficacious treatments for some patients. In addition, there has been a very small body of evidence published on the application of SCS in chronic neck pain and upper limb pain by placing the leads in the cervical spine. The evidence has suggested limited therapeutic response when traditional SCS therapy is used, where the paresthesia in the cervical spine associated with traditional SCS therapy can create intolerable discomfort, limiting its viability. We believe Senza can overcome this barrier due to its ability to deliver pain relief without paresthesia, combined with its demonstrated superior efficacy relative to the traditional SCS for back and leg pain. Early results from our SENZA Upper Limb and Neck study, which were presented at the North America Neuromodulation Society (NANS) conference in January 2017, demonstrated a 75% overall responder rate for 20 patients at three months. Further, average neck pain scores (as measured on the Visual Analog Scale (VAS)) declined from 7.5 (n=38) at baseline to 2.5 (n=20) at three months. For upper limb pain, average VAS scores declined from 7.0 (n=19) at baseline to 1.9 (n=12) at three months.

#### ***Non-Surgical Back Pain (Pre-Spinal Surgery)***

One of the most common uses for SCS is for neuropathic pain conditions such as FBSS. The incidence of patients that will develop FBSS following lumbar spinal surgery is estimated to be within the range of 10% to 40%. With the increasing number of spinal surgeries in the United States, FBSS is also increasing. While there is a clear need for spinal surgery in many patients, given the high rate of FBSS there is a potential for SCS to move up the treatment progression ahead of spinal surgery for some patients without mechanical instability. HF10 therapy could provide an attractive treatment option for these patients due to its cost, reversibility and initial trial period. In subset analysis of pre-spinal surgery patients from our SENZA-RCT and European studies, respectively, we found a decrease in back pain VAS scores from 7.2 to 2.5 (12 months, n=11) and 8.1 to 3.4 (24 months, n=14), respectively, as well as a decrease in leg pain VAS scores from 7.1 to 2.3 (12 months, n=11) and 5.9 to 2.8 (24 months, n=14), respectively. More recent results in patients treated with HF10 therapy with no history of spinal surgery from a study led by Adnan Al-Kaisy demonstrated similar promising results. In this study, patients experienced reduced back pain VAS and Oswestry Disability Index (ODI) scores from baseline of 73% and 48% respectively at 12 months (n=20). In addition to pain reduction and reduced disability, a reduction in opioid use of 64% was also observed in this study.

#### ***Painful Neuropathies***

The American Chronic Pain Association estimates that more than 15 million people in the United States and Europe have some degree of neuropathic pain. More than two out of every 100 people are estimated to have peripheral neuropathy, with the incidence rate increasing to eight in every 100 for people aged 55 or older. The



diminished quality of life and increased disability associated with peripheral neuropathy results in significant workforce and healthcare costs. Various treatments currently exist, but have limited efficacy. As such, we have initiated an initial study to determine if HF10 therapy could help this patient group. Preliminary results of a prospective, multicenter feasibility study treating chronic intractable pain of the limbs from peripheral polyneuropathy using HF10 therapy demonstrated a decrease in mean VAS pain score from 7.6 cm at baseline (N=26) to 2.1 cm at one month post-implant (N=16), with 81% of subjects deemed responders (abstract presented at NANS in January 2017).

## Clinical Data

To support development of our proprietary HF10 therapy, the technology was evaluated in preclinical studies and further studied in prospective clinical trials, all of which have now been published. Key highlights of our SENZA-RCT pivotal study are as follows:

- Our SENZA-RCT study results demonstrated the superiority of HF10 therapy to traditional SCS therapy on all primary and secondary endpoints through 24 months.
- HF10 therapy was nearly twice as successful in treating back pain as traditional SCS therapy, with 84.3% of patients receiving HF10 therapy reporting 50% or more pain relief at three months, as compared to 43.8% of patients receiving traditional SCS therapy. The superiority of HF10 therapy for treating back pain was maintained through the 24-month follow-up period of the study.
- HF10 therapy was 1.5 times as successful in treating leg pain as traditional SCS therapy, with 83.1% of patients receiving HF10 therapy, as compared to 55.5% of patients receiving traditional SCS therapy, reporting 50% or more pain relief at three months, results that were superior. The superiority of HF10 therapy for treating leg pain was maintained through the 24-month follow-up period of the study.
- HF10 therapy provided a 69.2% reduction in back pain as measured by the Visual Analog Scale, or VAS, versus 44.2% for traditional SCS therapy, at three months, results that were superior. The superiority of HF10 therapy for reducing back pain was maintained through the 24-month follow-up period of the study. HF10 therapy provided a 72.8% reduction in leg pain as measured by VAS, versus 51.5% for traditional SCS therapy, at three months, results that were superior. The superiority of HF10 therapy for reducing leg pain was maintained through the 24-month follow-up period of the study. Superiority of HF10 therapy to traditional SCS therapy demonstrated for both back and leg pain at each designated study endpoint throughout 24 months.
- Patients receiving HF10 therapy did not report paresthesia or uncomfortable stimulation at three months. In comparison, 46.5% of patients receiving traditional SCS therapy reported uncomfortable stimulation at three months.
- Two-thirds of HF10 therapy patients had a VAS pain score of less than or equal to 2.5 on a scale of 0 to 10 for back pain at three months (which we define as achieving remitter status), twice the number of traditional SCS therapy patients, results that were statistically superior. The superiority of HF10 therapy for achieving remitter status for back pain was maintained through the 24-month follow-up period of the study.
- Three-fourths of HF10 therapy patients had a VAS pain score of less than or equal to 2.5 on a scale of 0 to 10 for leg pain at three months, twice the number of traditional SCS therapy patients, results that were statistically superior. The superiority of HF10 therapy for achieving remitter status for leg pain was maintained through the 24-month follow-up period of the study.
- Safety outcomes were consistent across the control and test groups.

The results from the clinical studies have been consistent across studies and across outcome measures. Our prospective multicenter European clinical study (EU) further supported the findings of our prospective, comparative, randomized, controlled U.S. pivotal study (SENZA-RCT). In the two-year follow up of the EU study, average back pain VAS was reduced from 8.4 at baseline to 2.8 at 12 months to 3.3 at 24 months. Average leg pain was reduced from 5.4 VAS pain level at baseline to 2.0 at 12 months to 2.3 at 24 months. Additionally, for responder rates, 60% of the implanted patients had at least 50% back pain relief and 71% had at least 50% leg pain relief. Disability as

measured by ODI improved by an average of 15 points at 24 months, a clinically and statistically significant improvement. The following table summarizes key outcomes for implanted subjects in our EU and SENZA-RCT studies.

	Month 3		Month 6		Month 12		Month 24	
	EU	RCT	EU	RCT	EU	RCT	EU	RCT
<b>Back pain responders</b>								
HF10 therapy (%)	82.9	84.3	73.6	76.4	70.1	78.7	60.0	76.5
Traditional SCS (%)		43.8		52.5		51.3		
Superiority p-value		<0.001		0.001		<0.001		
<b>Leg pain responders</b>								
HF10 therapy (%)	82.9	83.1	86.0	80.9	65.0	80.9	71.1	72.9
Traditional SCS (%)		55.0		55.0		50		
Superiority p-value		<0.001		<0.001		<0.001		
<b>Back pain reduction from Baseline</b>								
HF10 therapy (%)	71.3	69.2	67.7	62.4	64.9	66.4	59.6	66.9
Traditional SCS (%)		44.2		44.3		44.7		
Superiority p-value		<0.001		<0.001		<0.001		
<b>Leg pain reduction from Baseline</b>								
HF10 therapy (%)	75.3	72.8	73.4	66.9	61.6	69.5	61.6	65.1
Traditional SCS (%)		51.5		49.9		48.0		
Superiority p-value		<0.001		0.002		<0.001		

Our SENZA-RCT pivotal study was a prospective, randomized, multi-center study, conducted across 11 U.S. clinical trial sites, comparing the safety and effectiveness of Senza delivering HF10 therapy, which we refer to as the test to Boston Scientific’s FDA-approved Precision Plus system, delivering traditional SCS therapy, which we refer to as the control. Each included patient was required to have a leg and back pain VAS score of at least 5. Among the 198 chronic pain patients who were randomized for treatments, 171 had a successful therapy evaluation phase, or trial phase, and were implanted with an SCS system. The study was designed as a non-inferiority trial and met its primary and secondary endpoints. Statistical analysis also demonstrates the superior efficacy of HF10 therapy over traditional SCS therapy for all primary and secondary endpoints.

The 12-month outcomes for HF10 therapy in our SENZA-RCT pivotal study were published in *Anesthesiology* and are consistent with the outcomes from our European clinical study, the two year results of which have been published in the *Pain Medicine* journal of the American Academy of Pain Medicine. The 24-month SENZA-RCT results were presented in December 2015 at the annual meeting of the North American Neuromodulation Society, showing sustained superiority of HF10 therapy compared with traditional SCS in treating both back and leg pain over the 24-month follow-up period. The 24-month outcomes in our SENZA-RCT pivotal study were published in *Neurosurgery*.

Patients with chronic pain are generally classified by physicians based on the location of their pain, for example whether their worst pain is predominant back, predominant leg, mixed back and leg, upper limb, neck or other. The adoption of SCS to date has been driven primarily by the treatment of patients whose worst pain is in their legs and for whom other treatment approaches have failed. We believe that broader utilization of traditional SCS therapy has been restrained by the lack of prospective randomized clinical evidence supporting SCS broadly and, in particular, demonstrating an ability to treat back pain.

#### *Safety Data (EU and RCT Studies)*

Safety results of our SENZA-RCT pivotal study were consistent between the test and control groups. Study-related serious adverse events, or SAEs, occurred in 4.0% of HF10 therapy subjects (n=4) compared with 7.2% of traditional SCS therapy subjects (n=7;  $p = 0.37$ ). In addition to the SAEs described above, there were two deaths, one of which was study-related and resulted from a myocardial infarction of a subject randomized to traditional SCS therapy that occurred during the implant procedure. The other death occurred outside the study period in the test group and resulted from a malignant hepatic neoplasm. The most common study-related AEs were implant site pain

(in 11.9% of HF10 therapy and 10.3% of traditional SCS therapy subjects) and uncomfortable paresthesia (in 11.3% of traditional SCS therapy participants). Lead migration leading to revision occurred in 3.0% of HF10 therapy and 5.2% of traditional SCS therapy participants. Importantly, neurological assessment revealed no stimulation-related neurological deficits in either treatment group. Also, there were no stimulation-related SAEs in either arm.

Safety results of our EU study demonstrated no evidence of neurologic deficit or dysfunction attributable to prolonged delivery of HF10 therapy. Further, investigators reported that adverse events were similar in nature and frequency to those seen with traditional SCS therapy. The most common adverse events in both arms of the study were implant site pain, infection and lead migration.

## **Our Senza System**

The Senza system is approved to create electrical impulses from 2 Hz to 10,000 Hz, including our proprietary HF10 therapy, which allows for pain relief without paresthesia. HF10 therapy delivers proprietary waveforms at 10,000 Hz pulse rate with a statistically driven and clinically verified programming algorithm.

Senza, similar to other commercially available SCS systems, consists of leads, a trial stimulator, an IPG, surgical tools, a clinician laptop programmer, a patient remote control and a mobile charger. These components enable physicians to implant the leads and the IPG, and patients to operate the system.



*Implantable Pulse Generator (IPG):* The IPG contains a rechargeable battery and electronics that deliver electrical pulses to the lead. It can connect to one or two leads, and up to 16 electrodes. It is a programmable device and can deliver the required customized programs for each patient. The IPG is rechargeable and is placed surgically under the skin, usually above the buttock or the abdomen. The Senza SCS system is CE Marked and FDA-approved with labeling for “at least 10 year battery life”.



*Percutaneous Leads:* The percutaneous leads vary in length and are thin, insulated medical wires in a cylindrical, flexible and steerable shape that conduct electrical pulses from the IPG to near the spinal cord. The

insertion of the percutaneous leads can also be minimally invasive as they can be inserted in the epidural space through a needle.



*Surpass Surgical Leads:* The Surpass surgical leads are similar to our percutaneous leads but in a larger paddle-shaped format that provides a larger surface area that broadens exposure of the lead along the vertebrae. Our Surpass surgical leads received initial approval from the FDA in late 2016 with a further approval received in January 2017 and we commenced a controlled commercial launch in early 2017. We believe the availability of Surpass leads will give access to up to approximately 30% of the U.S. SCS market that we previously did not address without a surgical lead.



*Trial Stimulator:* The trial stimulator contains electronics that deliver electrical pulses to the lead. It is an external device that is worn around the waist during the evaluation period that typically lasts several days. It is powered by batteries.

*Surgical Tools:* Surgical tools include percutaneous insertion needles that are used to introduce the lead into the epidural space, a variety of stylets that give physicians the ability to steer and deliver the lead to the desired location, anchors to secure the leads and tunneling tools that provide access from the lead insertion site to the location of the IPG.

*Programmer:* The clinician laptop programmer contains proprietary software that allows the customized per patient programming of the IPG. It can non-invasively interrogate the IPG and transmit programming information and download diagnostic information.

*Patient Remote Control:* The patient remote control is a handheld device that allows patients to turn their stimulation on and off and change programs uploaded to their IPG.

*Charger:* The charger recharges the IPG from outside the body. To charge, the charging coil of the charger is placed over the location of the IPG and then initiated by pushing a button on the charger. The charger is mobile and can be worn around the waist using a belt when charging is needed, so that the patient can perform various tasks

while charging. Charging sessions are usually performed daily and are expected to average approximately 45 minutes a day.

### **Third-Party Coverage and Reimbursement**

In the United States, the primary purchasers of Senza are hospitals and outpatient surgery centers. These purchasers bill various third-party payors, such as Medicare, Medicaid and private health insurance plans for the healthcare services associated with the SCS procedure. Government agencies and private payors determine whether to provide coverage for specific procedures. In the United States, the Centers for Medicare & Medicaid Services, or CMS, administers the Medicare and Medicaid programs (the latter, along with applicable state governments). As the single largest payor, this program has a significant impact on other payors' payment systems.

Generally, reimbursement for services performed at a hospital or outpatient surgery center are reported using billing codes issued by the American Medical Association (AMA) known as Current Procedural Terminology, or CPT, codes. Physician reimbursement under Medicare generally is based on a fee schedule and determined by the relative values of the professional service rendered. Hospital outpatient services, reported by CPT codes, are assigned to clinically relevant Ambulatory Payment Classifications (APCs) used to determine the Medicare payment amount for services provided. In addition, CMS and the National Center for Health Statistics (NCHS) are jointly responsible for overseeing changes and modifications to billing codes used by hospitals to report inpatient procedures, known as ICD-10-PCS codes on and after October 1, 2015. In the United States, CMS has approved a transitional pass-through payment for High-Frequency Stimulation under the Medicare hospital outpatient prospective payment system effective beginning January 1, 2016 and expiring December 31, 2017 unless renewed for an additional year, assigning a new Healthcare Common Procedure Coding System (HCPCS) Level II billing code to describe High-Frequency Stimulation. This pass-through payment for HF10 therapy is in addition to the established reimbursement for spinal cord stimulation implant procedures and devices. CMS determined that the Senza SCS System delivering HF10 therapy met the criteria for a new transitional pass-through device category based on evidence submitted from our SENZA-RCT study. We believe that SCS procedures using Senza are adequately described by existing CPT, HCPCS II, and ICD-10-PCS codes for the implantation of spinal cord stimulators and related leads performed in various sites of care.

Medicare reimbursement rates for the same or similar procedures vary due to geographic location, nature of the facility in which the procedure is performed (i.e., hospital outpatient department or outpatient surgery centers) and other factors. Although private payors' coverage policies and reimbursement rates can differ significantly from payor to payor, the Medicare program is frequently used as a model for how private payors and other governmental payors develop their coverage and reimbursement policies for healthcare items and services, including SCS procedures. For example, certain regional Blue Cross Blue Shield plans have denied coverage for Senza on the basis that high-frequency neuromodulation is investigational and/or experimental. We continue to engage in efforts to convince such payors of the advantages of HF10 therapy, however, there can be no assurances that we are successful in overturning negative coverage decisions by private health insurance plans. In addition, payors continually review new technologies for possible coverage and can, without notice, deny coverage for these new products and procedures. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be obtained, or maintained if obtained.

Outside the United States, reimbursement levels vary significantly by country, and by region within some countries. Reimbursement is obtained from a variety of sources, including government-sponsored and private health insurance plans, and combinations of both. Some countries will require us to gather additional clinical data before granting broader coverage and reimbursement for our products. It is our intent to complete the requisite clinical studies and obtain coverage and reimbursement approval beyond what we have today in countries where it makes economic sense to do so.

### **Product Development and Research Development**

Our objective is to continue to improve patient outcomes and further expand patient access to HF10 therapy through enhancements to Senza and the development of new indications. Research and development, or R&D,

expenses were \$19.8 million, \$21.4 million and \$33.7 million, for the years ended December 31, 2014, 2015 and 2016, respectively.

Since the launch of the initial Senza system, we have introduced a number of product enhancements. These include a short-tip version of the lead, new lengths of the lead, an active anchor with improved performance over silicon anchors, a second generation active anchor with smaller volume, lead adaptors that allow use of competitor leads already implanted in patients, second generation clinician programmer software, a second generation IPG with improved shape and compatibility for scans of the head and extremities with both 1.5 and 3 Tesla (T) MRI machines and our Surpass surgical lead to complement our percutaneous lead. We also expect to continue developing enhancements to Senza to further increase performance and introduce new benefits including next generation IPGs and enhanced MRI capabilities. There can be no assurance that we will be successful in these efforts or in receiving any required regulatory approvals.

## **Sales and Marketing**

### ***United States***

As of December 31, 2016, we had 194 hired and trained sales representatives in the field in the United States. Our sales representatives target physician specialties involved in SCS treatment decisions, including neurosurgeons, physiatrists, interventional pain specialists and orthopedic spine surgeons. We intend for sales representatives to reach target sales in the United States of \$1.3 million to \$1.5 million over a period of 12 to 15 months from initial field deployment. In addition, our commercial team plans to continue to create demand for Senza among additional stakeholders involved in the SCS treatment decision, including third-party payors, hospitals administrators and SCS patients and their families. We have also developed a clinical support team in order to provide ongoing support to physicians and patients for the use of Senza.

### ***International***

We sell Senza in Europe and Australia through a combination of our direct sales force and a network of sales agents and independent distributors. We began our direct sales operations in the United Kingdom in late 2010 and to date have expanded our direct sales operations to Austria, Australia, Belgium, Germany, Luxembourg, Norway, Sweden and Switzerland. We utilize sales agents and independent distributors to sell in an additional seven countries.

## **Competition**

We compete in the SCS market for chronic pain. We also compete with spine surgeries, in particular re-operations. Currently, our major competitors are Medtronic, Boston Scientific and Abbott Laboratories through its acquisition of St. Jude Medical, who have obtained regulatory approval for SCS systems. We believe that the primary competitive factors in the market are:

- Sales force experience and access.
- Published clinical efficacy data.
- Product support and service.
- Effective marketing and education.
- Company brand recognition.
- Clinical research leadership.
- Technological innovation, product enhancements and speed of innovation.
- Pricing and reimbursement.
- Product reliability, safety and durability.
- Ease of use.

- Physician advocacy and support.

Many of our competitors have greater capital resources, more established operations, longer commercial histories and more extensive relationships with physicians. They also have wider product offerings within neuromodulation and in other product categories, providing them with greater supplier power and with more opportunities to interact with stakeholders involved in purchasing decisions. We also face competition to recruit and retain qualified sales and other personnel.

We expect our competitors to launch new products and release additional clinical evidence within the next few years. For example, Abbott Laboratories, by virtue of its recent acquisition of St. Jude Medical, Inc., recently received FDA approval for a SCS system that offers an alternate low frequency waveform called BurstDR, and in February 2016, the company gained approval for a neuromodulation system that stimulates the dorsal root ganglion for treatment of focal pain and complex regional pain syndrome, in each case, using pivotal clinical studies for each therapy to support the FDA approval process. Medtronic is performing studies to collect data on existing SCS products for back pain and also testing their high density programming approach. Additionally, Boston Scientific has commenced a randomized clinical trial of a high-frequency SCS therapy in their Accelerate study and of a sub-threshold therapy through their Whisper study. Additionally, there are a number of emerging competitors at various stages of development. Stimwave has developed and is starting to commercialize a minimally invasive stimulation system that employs an externally worn power source and radio frequency transmitter. Saluda is developing and testing a low frequency closed loop system for the treatment of chronic pain. In November 2015, Nuvecetra, a company that was spun-off from Greatbatch, received FDA approval for its SCS system, which is similar to many of the other traditional SCS systems currently on the market.

## **Intellectual Property**

We actively seek to protect the intellectual property and proprietary technology that we believe is important to our business, which includes seeking and maintaining patents covering our technology and products, proprietary processes and any other inventions that are commercially or strategically important to the development of our business. We also rely upon trademarks to build and maintain the integrity of our brand, and we seek to protect the confidentiality of trade secrets that may be important to the development of our business. For more information, please see “Risk Factors—Risks Related to Intellectual Property.”

### ***Patents, Trademarks and Proprietary Technology***

As of December 31, 2016, we owned 132 issued patents globally, of which 83 were issued U.S. utility patents, 2 were issued U.S. design patents, 23 were issued Australian utility patents, one was an Australian design patent, 9 were issued European utility patents, one was a European design patent, 5 were issued German Utility Models, 3 were issued Japanese patents, one was an issued Korean utility patent, one was an issued Korean design patent, two were issued Chinese utility patents and one was an issued Chinese design patent. In general, our patents cover SCS systems that are configured to generate non-paresthesia producing therapy signals at frequencies between 1,500 Hz to 100,000 Hz, as well as additional aspects, algorithms and components of the Senza system and HF10 therapy. As of December 31, 2016, we held 101 patent applications pending globally, of which 53 were patent applications pending in the United States, and 48 were patent applications pending across Europe, Australia, Canada, Japan, China and Korea. We also have an exclusive license from the Mayo Foundation to two U.S. issued patents and two U.S. pending patent applications. All of our current issued patents are projected to expire between 2028 and 2035.

As of December 31, 2016, our trademark portfolio contained 16 trademark registrations, of which there were 4 U.S. trademark registrations, 4 Australian trademark registrations, 4 European trademark registrations, 2 Japanese trademark registrations, one Swiss trademark registration and one Turkish trademark registration. Our trademark portfolio also contained 3 pending U.S. trademark applications and 6 pending foreign trademark applications.

The term of individual patents depends on the legal term for patents in the countries in which they are granted. In most countries, including the United States, the patent term is generally 20 years from the earliest claimed filing date of a non-provisional patent application in the applicable country. We cannot assure that patents will be issued from any of our pending applications or that, if patents are issued, they will be of sufficient scope or strength to

provide meaningful protection for our technology. Notwithstanding the scope of the patent protection available to us, a competitor could develop treatment methods or devices that are not covered by our patents. Furthermore, numerous U.S. and foreign issued patents and patent applications owned by third parties exist in the fields in which we are developing products. Because patent applications can take many years to issue, there may be applications unknown to us, which applications may later result in issued patents that our existing or future products or proprietary technologies may be alleged to infringe.

There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. In the future, we may need to engage in litigation to enforce patents issued or licensed to us, to protect our trade secrets or know-how, to defend against claims of infringement of the rights of others or to determine the scope and validity of the proprietary rights of others. Litigation could be costly and could divert our attention from other functions and responsibilities. Adverse determinations in litigation could subject us to significant liabilities to third parties, could require us to seek licenses from third parties and could prevent us from manufacturing, selling or using Senza, any of which could severely harm our business.

We also rely upon trade secrets, know-how and continuing technological innovation, and may rely upon licensing opportunities in the future, to develop and maintain our competitive position. We seek to protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with suppliers, employees, consultants and others who may have access to proprietary information, under which they are bound to assign to us inventions made during the term of their employment.

### ***The Mayo License***

In October 2006, we entered into a license agreement, or the Mayo License, with the Venturi Group, LLC, or VGL, and the Mayo Foundation for Medical Education and Research, or the Mayo Foundation, pursuant to which the Mayo Foundation committed to confer with us exclusively to develop products for the treatment of autonomic and peripheral nervous system disorders, including pain, using devices to modulate nerve signaling, and non-exclusively to test such devices, and VGL committed to confer with us non-exclusively to develop such devices, and exclusively to test such devices. These commitments to confer expired in January 2011. We were granted a worldwide license to make, use, sell, offer for sale, and import products incorporating or using the know-how developed for and provided to us by the Mayo Foundation or VGL in the course of such development and testing activities, exclusively for product development and non-exclusively for product testing. Pursuant to the Mayo License, we are obligated to pay royalties in the low single digits to the Mayo Foundation, on a country-by-country and product-by-product basis, based on a percentage of net sales of licensed products, subject to reduction under certain circumstances. We are also required under the Mayo License to use commercially reasonable efforts to research, develop and commercialize licensed products.

The Mayo License terminates upon the expiration of (1) the last to expire of the licensed patents or (2) our obligation to pay royalties, whichever is later. We, the Mayo Foundation or VGL may terminate the Mayo License upon 60 days' notice of a party's material breach if such breach remains uncured after such 60-day period.

### **Manufacturing and Supply**

We rely upon third-party suppliers for the manufacture and assembly of our Senza SCS system and its components, some of which are single- or sole-sources of the relevant product component. We have not yet identified and qualified second-source replacements for several of our critical single-source suppliers. Thus, in the event that our relationship with any of our single- or sole-source suppliers terminates in the future, we may have difficulty maintaining sufficient production of our products at the standards we require. Where practicable, we seek out and validate second-source manufacturers for our single-source components. We believe that existing third-party facilities will be adequate to meet our current and anticipated manufacturing needs. We do not currently plan to manufacture the Senza SCS system components ourselves.

We believe our manufacturing operations, and those of our suppliers, are in compliance with regulations mandated by the FDA. Manufacturing facilities that produce medical devices or their component parts intended for distribution world-wide are subject to regulation and periodic unannounced inspection by the FDA and other domestic and international regulatory agencies. In the United States, we are required to manufacture any products



that we sell in compliance with the FDA's Quality System Regulation, or QSR, which covers the methods used in, and the facilities used for, the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of our products. In international markets, we are required to obtain and maintain various quality assurance and quality management certifications. We have obtained the following international certifications: Quality Management System ISO13485, Full Quality Assurance Certification for the design and manufacture of spinal cord stimulator systems and accessories and a Design Examination certificate for Implantable Pulse Generator and Accessories. We are required to demonstrate continuing compliance with applicable regulatory requirements to maintain these certifications and will continue to be periodically inspected by international regulatory authorities for certification purposes.

Our material supply contracts are as follows:

### ***Pro-Tech Design and Manufacturing***

In July 2014, we entered into a new supply agreement with Pro-Tech Design and Manufacturing, Inc., or Pro-Tech, pursuant to which Pro-Tech, as a single-source supplier, conducts the inspection, labeling, packaging and sterilization of our Senza SCS system. Our supply agreement is scheduled to expire in July 2019, unless terminated earlier. We may terminate the agreement without cause upon six months' prior written notice, and Pro-Tech may terminate without cause upon 18 months' prior written notice. In addition, we and Pro-Tech have the right to terminate the agreement upon 30 days' prior written notice in the event of the other party's material breach that remains uncured at the end of such 30-day period.

### ***Stellar Technologies***

On July 1, 2009, we entered into a manufacturing agreement with Stellar Technologies, Inc., or Stellar, our single-source supplier of our percutaneous leads, percutaneous lead extenders and surgical leads for our neurological stimulator products. On June 30, 2014, the agreement's initial term expired, and the agreement automatically renewed for the first time. On July 1, 2014, we entered into a first amendment to the manufacturing agreement with Stellar, which provides for an additional five year term commencing from the date of the amendment, after which the agreement automatically renews for successive one-year terms unless either party provides written notice of intent not to renew at least 30 days before the expiration of the then-current term. On January 28, 2016, we entered into a second amendment to this agreement, which provides for the purchase of certain supplementary products pursuant to the agreement. We refer to the manufacturing agreement as amended by the first and second amendments as the Stellar Agreement.

Either we or Stellar may terminate the Stellar Agreement at will upon one year's advance notice, subject to certain remaining rights and payment obligations, including an early cancellation fee payable by us to Stellar. We may also terminate the Stellar Agreement if Stellar is unable to perform its obligations under the Stellar Agreement for 60 days or more, or if Stellar is unwilling to perform its obligations under the Stellar Agreement and does not cure such defect within 60 days' of our providing written notice to cure. Stellar may terminate the Stellar Agreement in the event of our default of certain specified obligations, including our payment obligations, material violation of a warranty or law, our material breach, and our insolvency.

### ***CCC Supply Agreement***

We rely upon C.C.C. Del Uruguay S.A., or CCC, a subsidiary of Greatbatch Ltd., as one of our manufacturers of our IPGs. In April 2012, we entered into our original supply agreement with CCC, which we later amended in March 2013, June 2014 and November 2016. On November 15, 2016, we entered into a new multi-year supply agreement with CCC, pursuant to which CCC agreed to a revised arrangement with regard to the manufacture and supply of our IPGs. The agreement is effective as of November 11, 2016 and, pursuant to its terms, terminated our existing supply agreement with CCC entered into on March 13, 2015.

Pursuant to the terms of the agreement, CCC agreed to manufacture and supply our IPGs during the term of the agreement. For the first three years of the term of the agreement, we are obligated to purchase from CCC specified minimum purchase quantities of Model 1500 IPGs. At such time as we and the FDA approves the Model 2000 IPG and related manufacturing processes and facility, we will become obligated to purchase from CCC

specified minimum purchase quantities of Model 2000 IPGs. The foregoing specified minimum purchase obligations are subject to certain exceptions and reductions in the event of supply failures, shortages and product defects.

The agreement continues for ten years unless terminated earlier. The term of the agreement automatically renews for additional two-year terms unless one party provides the other party with written notice of termination at least one year prior to the end of the initial term or the applicable renewal period. In the event of a change of control of CCC, the agreement may be terminated by us upon three years' written notice to CCC, provided that such notice period shall be one year in the event CCC is acquired by certain competitors to us. In addition, the agreement may be terminated by mutual agreement of the parties, or by either party, with written notice, upon the other party's cessation of business or other termination of its business operations, uncured material breach or insolvency of the other party. Upon termination of the agreement, CCC shall, subject to certain exceptions and unless otherwise agreed to by the parties, fulfill all purchase orders placed by us and accepted by CCC prior to the effective date of termination.

The agreement contains, among other provisions, customary representations and warranties by the parties, ordering and payment and shipping terms, customary provisions with respect to the ownership of any intellectual property created during the term of the agreement, certain indemnification rights in favor of both parties, limitations of liability and customary confidentiality provisions.

#### ***EaglePicher Medical Power Supply Agreement***

In April 2009, we entered into a product supply and development agreement with EaglePicher Medical Power LLC, or EaglePicher, our single-source supplier of the batteries and related products for our IPG. Pursuant to the agreement, EaglePicher must use its best efforts to supply these batteries and related products in sufficient quantity to meet our demand. The agreement also provides that, upon our written request, EaglePicher will conduct development of a modified version of these products to our specifications, if we so desire. The initial term of our supply agreement with EaglePicher expired in November 2010, and the term had been automatically renewing for successive one-year periods.

In March 2015, we entered into a first amendment to the product supply and development agreement with EaglePicher. The amendment commits us to specified minimum purchase amounts over the course of the term of the agreement and adjusts EaglePicher's production capacity and facilities commitments under the agreement as well as certain pricing, purchasing, delivery and cancellation terms. The amendment also extends the term of the agreement to December 31, 2019, with an additional two-year automatic renewal period unless we or EaglePicher provides notice of its intent not to renew prior to the commencement of such renewal term. We have also agreed, subject to certain conditions, to purchase minimum quantities of product. The amendment further provides us with the right to place a final order with EaglePicher following termination of the agreement, as amended and modifies certain warranty and assignment terms and the parties' limitations of liability.

In November 2015, we entered into a second amendment to the agreement, which increased our pre-existing specified minimum purchase amounts and increased EaglePicher's production capacity commitments under the agreement, as well as specifying certain purchasing and purchase order protocols. The amendment obligated EaglePicher to establish and qualify an additional battery production operation and commits us to fund approximately \$1.0 million of such production operation paid in three milestone installments. The amendment also establishes EaglePicher as our exclusive battery supplier through the initial five-year term of the agreement, ending December 31, 2019.

#### ***Vention Supply Agreement***

In December 2015, we entered into a Manufacturing and Supply Agreement with Vention Medical Design and Development, Inc., or Vention, pursuant to which Vention agreed to manufacture and supply our IPGs. We are obligated to purchase from Vention specified minimum purchase quantities of IPGs for the duration of the Vention agreement.

The agreement continues for five years unless terminated earlier. The term of the agreement automatically renews for additional one-year terms unless one party provides the other party with written notice of termination at least one year prior to the end of the applicable renewal period. The agreement may be terminated by us for any reason upon 180 days' written notice to Vention. In addition, the agreement may be terminated by mutual agreement of the parties, or by either party, with written notice, upon uncured material breach or insolvency of the other party. Upon termination of the agreement, Vention shall, upon our request, manufacture an additional 24 months of continuous supply of IPGs based on the preceding forecast average or such other amount as agreed upon by the parties.

### ***Other Suppliers***

We also have other suppliers, including some sole-source suppliers, for certain of our components, with whom we do not have agreements.

### **Product Liability and Insurance**

The manufacture and sale of our products subjects us to the risk of financial exposure to product liability claims. Our products are used in situations in which there is a risk of serious injury or death. We carry insurance policies which we believe to be customary for similar companies in our industry. We cannot assure you that these policies will be sufficient to cover all or substantially all losses that we experience.

We endeavor to maintain executive and organization liability insurance in a form and with aggregate coverage limits that we believe are adequate for our business purposes, but our coverage limits may prove not to be adequate in some circumstances.

### **Government Regulations**

#### ***United States***

Our products and operations are subject to extensive and rigorous regulation by the FDA under the Federal Food, Drug, and Cosmetic Act, or FDCA, and its implementing regulations, guidances, and standards. The FDA regulates the research, testing, manufacturing, safety, labeling, storage, recordkeeping, promotion, distribution, and production of medical devices in the United States to ensure that medical products distributed domestically are safe and effective for their intended uses. The FDA also regulates the export of medical devices manufactured in the United States to international markets. Any violations of these laws and regulations could result in a material adverse effect on our business, financial condition and results of operations. In addition, if there is a change in law, regulation or judicial interpretation, we may be required to change our business practices, which could have a material adverse effect on our business, financial condition and results of operations.

Under the FDCA, medical devices are classified into one of three classes—Class I, Class II or Class III—depending on the degree of risk associated with each medical device and the extent of control needed to ensure safety and effectiveness.

Class I devices are those for which safety and effectiveness can be assured by adherence to FDA's "general controls" for medical devices, which include compliance with the applicable portions of the QSR facility registration and product listing, reporting of adverse medical events, and appropriate, truthful and non-misleading labeling, advertising, and promotional materials. Some Class I devices also require premarket clearance by the FDA through the 510(k) premarket notification process described below.

Class II devices are subject to FDA's general controls, and any other "special controls" deemed necessary by FDA to ensure the safety and effectiveness of the device. Premarket review and clearance by the FDA for Class II devices is accomplished through the 510(k) premarket notification procedure, though certain Class II devices are exempt from this premarket review process. When a 510(k) is required, the manufacturer must submit to the FDA a premarket notification submission demonstrating that the device is "substantially equivalent" to a legally marketed device, which in some cases may require submission of clinical data. A legally marketed device is defined by statute to mean a device that was legally marketed prior to May 28, 1976, the date upon which the Medical Device

Amendments of 1976 were enacted, or another commercially available, similar device that was cleared through the 510(k) process. Unless a specific exemption applies, 510(k) premarket notification submissions are subject to user fees. If the FDA determines that the device, or its intended use, is not substantially equivalent to a legally marketed device, the FDA will place the device, or the particular use of the device, into Class III, and the device sponsor must then fulfill much more rigorous premarketing requirements in the form of a premarket approval, or PMA.

A Class III device includes devices deemed by the FDA to pose the greatest risk such as life-supporting or life-sustaining devices, or implantable devices, in addition to a device that has a new intended use or utilizes advanced technology that is not substantially equivalent to that of a legally marketed device. The safety and effectiveness of Class III devices cannot be assured solely by general and special controls. These devices almost always require formal clinical studies to demonstrate safety and effectiveness.

Submission and FDA approval of a PMA application is required before marketing of a Class III device can proceed.

### ***PMA Approval***

The Senza SCS system is a Class III device subject to review and approval through the PMA pathway. PMA applications must be supported by, among other things, valid scientific evidence, which typically requires extensive data, including technical, preclinical, clinical and manufacturing data, to demonstrate to the FDA's satisfaction the safety and effectiveness of the device. A PMA application must also include, among other things, a complete description of the device and its components, a detailed description of the methods, facilities and controls used to manufacture the device and proposed labeling. As with 510(k) submissions, unless subject to an exemption, PMA submissions are subject to user fees.

The FDA has 45 days from its receipt of a PMA to determine whether the application will be accepted for filing based on the agency's threshold determination that it is sufficiently complete to permit substantive review. Once the submission is accepted for filing, the FDA begins an in-depth review. The FDA, by statute and by regulation, has 180-days to review an "accepted" PMA application, although the review of an application more often occurs over a significantly longer period of time, and can take up to several years. During this review period, the FDA may request additional information or clarification of information already provided. In addition, the FDA will conduct a pre-approval inspection of the applicant and/or its third-party manufacturers' or suppliers' manufacturing facility or facilities to ensure compliance with the QSR, which requires manufacturers to follow design, testing, control, documentation and other quality assurance procedures.

The timing of FDA review of an initial PMA application can vary substantially and, in some cases, require several years to complete. The FDA can delay, limit, or deny approval of a PMA application for many reasons, including:

- it is not demonstrated that there is reasonable assurance that the device is safe or effective under the conditions of use prescribed, recommended or suggested in the proposed labeling;
- the data from preclinical studies and clinical trials may be insufficient; and
- the manufacturing process, methods, controls or facilities used for the manufacture, processing, packing or installation of the device do not meet applicable requirements.

If the FDA evaluations of both the PMA application and the manufacturing facilities are favorable, the FDA will either issue an approval letter or an approvable letter, which usually contains a number of conditions that must be met in order to secure final approval of the PMA. If the FDA's evaluation of the PMA or manufacturing facilities is not favorable, the FDA will deny approval of the PMA or issue a not approvable letter. A not approvable letter will outline the deficiencies in the application and, where practical, will identify what is necessary to make the PMA approvable. The FDA may also determine that additional clinical trials are necessary, in which case the PMA approval may be delayed for several months or years while the trials are conducted and the data is then submitted in an amendment to the PMA. Once granted, PMA approval may be withdrawn by the FDA if compliance with post approval requirements, conditions of approval or other regulatory standards is not maintained or problems are

identified following initial marketing. In May 2015, we received approval for our PMA application for the Senza SCS system.

Approval by the FDA of new PMA applications or PMA supplements may be required for modifications to the manufacturing process, labeling, device specifications, materials or design of a device that is approved through the PMA process. PMA supplements often require submission of the same type of information as an initial PMA application, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA application and may not require as extensive clinical data. For example, if we seek approval to expand the label of Senza to include additional pain indications, we anticipate that we will be required to submit and receive approval for a PMA supplement.

### ***Clinical Studies***

In the United States, human clinical trials intended to support medical device clearance or approval require compliance with the FDA's investigational device exemption, or IDE, regulations. For a device that presents a "significant risk" to human health, the device sponsor is required to file an IDE application with the FDA and obtain IDE approval prior to commencing the human clinical trial, as well as obtain approval of an Institutional Review Board, or IRB, at each institution where the study will be conducted. If the device is considered a "non-significant risk," IDE approval from FDA is not required. Instead, only approval from the IRB overseeing the investigation at each clinical trial site is required, though the sponsor must still comply with abbreviated IDE requirements, such as protection of human subjects and informed consent. Human clinical studies are generally required in connection with approval of Class III devices and may be required for Class I and II devices. The FDA or the IRB at each institution at which a clinical trial is being performed may suspend a clinical trial at any time for various reasons, including a belief that the subjects are being exposed to an unacceptable health risk.

### ***Continuing Regulation***

After the FDA permits a device to enter commercial distribution, numerous regulatory requirements apply. These include: compliance with the QSR, which requires manufacturers to follow elaborate design, testing, control, documentation and other quality assurance procedures during the manufacturing process; labeling regulations; the FDA's general prohibition against promoting products for unapproved or "off-label" uses; the reports of Corrections and Removals regulation, which requires manufacturers to report recalls and field actions to the FDA if initiated to reduce a risk of health posed by the device or to remedy a violation of the Federal Food, Drug and Cosmetic Act; and the Medical Device Reporting regulation, which requires that manufacturers report to the FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serious injury if it were to reoccur. Manufacturers are also required to register and list their devices with the FDA, based on which the FDA will conduct inspections to ensure continued compliance with applicable regulatory requirements.

The FDA has broad post-market and regulatory and enforcement powers. Failure to comply with the applicable U.S. medical device regulatory requirements could result in, among other things, warning letters; fines; injunctions; consent decrees; civil penalties; repairs, replacements or refunds; recalls, corrections or seizures of products; total or partial suspension of production; the FDA's refusal to grant future premarket clearances or approvals; withdrawals or suspensions of current product applications; and criminal prosecution. If any of these events were to occur, they could have a material adverse effect on our business, financial condition and results of operations.

### ***International***

Our international sales are subject to regulatory requirements in the countries in which our products are sold. The regulatory review process varies from country to country and may in some cases require the submission of clinical data. In addition, the FDA must be notified of, or approve the export to certain countries of devices that require a PMA, and not yet approved in the United States.

In the European Economic Area, or EEA (which is comprised of the 28 Member States of the EU plus Norway, Liechtenstein and Iceland), we need to comply with the requirements of the EU Active Implantable Medical Devices Directive, or AIMDD, and appropriately affix the CE Mark on our products to attest to such compliance. To achieve compliance, our products must meet the “Essential Requirements” laid down in Annex I of the AIMDD relating to safety and performance. To demonstrate compliance with the Essential Requirements and obtain the right to affix the CE mark we must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for low risk medical devices (Class I with no measuring function and which are not sterile), where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the Essential Requirements, a conformity assessment procedure requires the intervention of a Notified Body, which is an organization designated by a competent authority of an EEA country to conduct conformity assessments. Depending on the relevant conformity assessment procedure, the Notified Body would audit and examine the Technical File and the quality system for the manufacture, design and final inspection of our devices. The Notified Body issues a CE Certificate of Conformity following successful completion of a conformity assessment procedure conducted in relation to the medical device and its manufacturer and their conformity with the Essential Requirements. This Certificate entitles the manufacturer to affix the CE mark to its medical devices after having prepared and signed a related EC Declaration of Conformity. The assessment of the conformity of Senza has been certified by our Notified Body (the British Standards Institution, or BSI).

As a general rule, demonstration of conformity of medical devices and their manufacturers with the Essential Requirements must be based, among other things, on the evaluation of clinical data supporting the safety and performance of the products during normal conditions of use. Specifically, a manufacturer must demonstrate that the device achieves its intended performance during normal conditions of use and that the known and foreseeable risks, and that any adverse events, are minimized and acceptable when weighed against the benefits of its intended performance, and that any claims made about the performance and safety of the device (e.g., product labeling and instructions for use) are supported by suitable evidence. This assessment must be based on clinical data, which can be obtained from (1) clinical studies conducted on the devices being assessed, (2) scientific literature from similar devices whose equivalence with the assessed device can be demonstrated or (3) both clinical studies and scientific literature. With respect to active implantable medical devices or Class III devices, the manufacturer must conduct clinical studies to obtain the required clinical data, unless reliance on existing clinical data from equivalent devices can be justified. The conduct of clinical studies in the EEA is governed by detailed regulatory obligations. These may include the requirement of prior authorization by the competent authorities of the country in which the study takes place and the requirement to obtain a positive opinion from a competent Ethics Committee. This process can be expensive and time-consuming. Additionally, Senza must continue to comply with the requirements of certain EU Directives.

We are subject to continued surveillance by our Notified Body and will be required to report any serious adverse incidents to the appropriate authorities. We also must comply with additional requirements of individual countries in which our products are marketed.

The assessment of the conformity of Senza with the AIMDD and the Radio and Telecommunications Terminal (R&TTE) Directive has been certified by the BSI.

In September 2012, the European Commission published proposals for the revision of the EU regulatory framework for medical devices. The proposal would replace the Medical Devices Directive and the Active Implantable Medical Devices Directive with two new regulations; the Medical Devices Regulation and the In-Vitro Diagnostic Medical Devices Regulation. Unlike the directives, which must be implemented into the national laws of the EEA member States, the regulations would be directly applicable, i.e., without the need for adoption of EEA member State laws implementing them, in all EEA Member States and are intended to eliminate current differences in the regulation of medical devices among EEA member States.

The European Parliament adopted its position on the European Commission’s proposals in first reading in April 2014 and the European Council agreed on its general approach in October 2015. Interinstitutional negotiations between the European Council, Parliament and Commission concluded with an agreement on a revised version of the proposals in May 2016. Both proposals are now undergoing legal-linguistic revision. The formal first reading of the Council is expected early this year, followed by a plenary vote in Parliament at second reading, which would

lead to the final adoption of the two regulations in the first quarter of 2017. The Medical Devices Regulation will however only become applicable three years after publication while the In-Vitro Diagnostic Medical Devices Regulation will only become applicable five years after publication. Once applicable, the new regulations will among other things:

- strengthen the rules on placing devices on the market and reinforce surveillance once they are available;
- establish explicit provisions on manufacturers' responsibilities for the follow-up of the quality, performance and safety of devices placed on the market;
- improve the traceability of medical devices throughout the supply chain to the end-user or patient through a unique identification number;
- set up a central database to provide patients, healthcare professionals and the public with comprehensive information on products available in the EU;
- strengthened rules for the assessment of certain high-risk devices, such as implants, which may have to undergo an additional check by experts before they are placed on the market.

### ***Other Regulations***

We are also subject to healthcare fraud and abuse regulation in the jurisdictions in which we will conduct our business. These laws include, without limitation, applicable anti-kickback, false claims, physician sunshine and patient privacy and security laws and regulations.

*Anti-Kickback Statute:* The federal Anti-Kickback Statute prohibits, among other things, persons or entities from knowingly and willfully soliciting, offering, receiving or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in exchange for or to induce either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service for which payment may be made, in whole or in part, under federal healthcare programs such as Medicare and Medicaid. The federal Anti-Kickback Statute is broad and prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. The term "remuneration" includes kickbacks, bribes, or rebates and also has been broadly interpreted to include anything of value, including for example, gifts, discounts, the furnishing of supplies or equipment, credit arrangements, payments of cash, waivers of payments, ownership interests and providing anything at less than its fair market value. There are a number of statutory exceptions and regulatory safe harbors protecting certain business arrangements from prosecution under the federal Anti-Kickback Statute. These statutory exceptions and safe harbors set forth provisions that, if all their applicable requirements are met, will assure healthcare providers and other parties that they may not be prosecuted under the federal Anti-Kickback Statute. The failure of a transaction or arrangement to fit precisely within one or more applicable statutory exceptions or safe harbors does not necessarily mean that it is illegal or that prosecution will be pursued. However, conduct and business arrangements that do not fully satisfy all requirements of an applicable safe harbor may result in increased scrutiny by government enforcement authorities and will be evaluated on a case-by-case basis based on a cumulative review of all of its facts and circumstances. Further, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it. In addition, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal civil False Claims Act which is discussed below. Penalties for violations of the Anti-Kickback Statute include, but are not limited to, criminal, civil and/or administrative penalties, damages, fines, disgorgement, individual imprisonment, possible exclusion from Medicare, Medicaid and other federal healthcare programs, and the curtailment or restructuring of operations.

*Federal Civil False Claims Act:* The federal civil False Claims Act prohibits, among other things, persons or entities from knowingly presenting or causing to be presented a false or fraudulent claim to, or the knowing use of false statements to obtain payment from or approval by, the federal government. In addition, private individuals have the ability to bring actions under the civil False Claims Act in the name of the government alleging false and fraudulent claims presented to or paid by the government (or other violations of the statutes) and to share in any amounts paid by the entity to the government in fines or settlement. Such suits, known as qui tam actions, have increased significantly in the healthcare industry in recent years. Manufacturers can be held liable under these laws if they are deemed to "cause" the submission of false or fraudulent claims by, for example, providing inaccurate

billing or coding information to customers or promoting a product off-label. Penalties for a federal civil False Claims Act violation include three times the actual damages sustained by the government, plus mandatory civil penalties that range, as of August 1, 2016, from approximately \$10,781 to \$21,563 for each separate false claim, the potential for exclusion from participation in federal healthcare programs and criminal liability.

*Health Insurance Portability and Accountability Act of 1996:* The federal Health Insurance Portability and Accountability Act, or HIPAA, created several new federal crimes, including healthcare fraud and false statements relating to healthcare matters. The healthcare fraud statute prohibits knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program, including private third-party payors. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services.

In addition, HIPAA and its implementing regulations established uniform standards for certain covered entities, which are healthcare providers, health plans and healthcare clearinghouses, as well as their business associates, governing the conduct of specified electronic healthcare transactions and protecting the security and privacy of protected health information. HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, created four new tiers of civil monetary penalties and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorneys' fees and costs associated with pursuing federal civil actions.

*EU Data Protection Laws:* We are subject to laws and regulations in non-U.S. countries covering data privacy and the protection of health-related and other personal information. EU member states and other jurisdictions have adopted data protection laws and regulations, which impose significant compliance obligations. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of personal information that identifies or may be used to identify an individual, such as names, contact information and sensitive personal data such as health data. These laws and regulations are subject to frequent revisions and differing interpretations, and have generally become more stringent over time.

For example, the EU Data Protection Directive, as implemented into national laws by the EU member states, imposes strict obligations and restrictions on the processing of personal data. The new EU-wide General Data Protection Regulation, or GDPR, entered into force in May 2016 and will become applicable on May 25, 2018, replacing the current data protection laws of each EU member state. The GDPR will implement more stringent operational requirements for processors and controllers of personal data, including, for example, expanded disclosures about how personal information is to be used, limitations on retention of information, increased requirements pertaining to health data and pseudonymised (i.e., key-coded) data, mandatory data breach notification requirements and higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. The GDPR provides that EU member states may make their own further laws and regulations limiting the processing of genetic, biometric or health data, which could limit our ability to use and share personal data or could cause our costs could increase, and harm our business and financial condition.

We are also subject to evolving EU laws on data export, as we may transfer personal data from the EU to other jurisdictions. For example, in 2015, the Court of Justice of the European Union invalidated the U.S.-EU Safe Harbor framework regarding the transfer of personal data from the EU to the U.S. EU and U.S. negotiators agreed in February 2016 to a new framework, the Privacy Shield, which would replace the Safe Harbor framework. However, there is currently litigation against this framework as well as litigation challenging other EU mechanisms for adequate data transfers (e.g. the standard contractual clauses), and it is uncertain whether the Privacy Shield framework and/or the standard contractual clauses will be similarly invalidated by the EU courts. We rely on a mixture of mechanisms to transfer data to from our EU business to the U.S., and could be impacted by changes in law as a result of the current challenges to these mechanisms in the European courts.

In recent years, U.S. and European lawmakers and regulators have expressed concern over electronic marketing and the use of third-party cookies, web beacons and similar technology for online behavioral advertising. In the EU, informed consent is required for the placement of a cookie on a user's device. The current EU laws that cover the use of cookies and similar technology and marketing online or by electronic means are under reform. A draft of the new ePrivacy Regulation was announced on January 10, 2017 and is targeted to become applicable on



May 25, 2018 (alongside the GDPR). Unlike the current ePrivacy Directive, this will be directly implemented into the laws of each of the EU member States, without the need for further enactment. When implemented, the ePrivacy Regulation is expected to alter rules on third-party cookies, web beacons and similar technology for online behavioral advertising and to impose stricter requirements on companies using these tools. The draft also extends the strict opt-in marketing rules with limited exceptions to business to business communications, and significantly increases penalties.

Any failure or perceived failure by us to comply with privacy or security laws, policies, legal obligations or industry standards or any security incident that results in the unauthorized release or transfer of personally identifiable information may result in governmental enforcement actions and investigations including by European Data Protection Authorities, fines and penalties (for example, of up to 20,000,000 Euros or up to 4% of the total worldwide annual turnover of the preceding financial year (whichever is higher) under the GDPR and draft ePrivacy Regulation), litigation and/or adverse publicity, including by consumer advocacy groups, and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Such failures could have a material adverse effect on our financial condition and operations. If the third parties we work with violate applicable laws, contractual obligations or suffer a security breach, such violations may also put us in breach of our obligations under privacy laws and regulations and/or could in turn have a material adverse effect on our business.

*The Federal Physician Payments Sunshine Act:* The federal Physician Payments Sunshine Act requires certain manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program, with certain exceptions, to report annually to CMS information related to “payments or other transfers of value” made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and to report annually to CMS certain ownership and investment interests held by physicians and their immediate family members.

*Analogous State and Foreign Law Equivalents:* We may be subject to state and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers; state laws that require device companies to comply with the industry’s voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require device manufacturers to report information related to payments and other “transfers of value” to physicians and other healthcare providers or marketing expenditures; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

*Healthcare Reform:* In March 2010 the Affordable Care Act, or the ACA, was signed into law, which has the potential to substantially change healthcare financing and delivery by both governmental and private insurers, and significantly impact the medical device industry. The Affordable Care Act impacted existing government healthcare programs and resulted in the development of new programs. The Affordable Care Act’s provisions of importance include, but are not limited to, a deductible 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions, effective January 1, 2013. In December 2015, Former President Obama signed into law the Consolidated Appropriations Act, 2016, which included a two-year moratorium on the medical device excise tax such that medical device sales in 2016 and 2017 are exempt from the medical device excise tax. Unless there is further legislative action, the tax will be automatically reinstated for sales of medical devices on or after January 1, 2018.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. These changes included an aggregate reduction in Medicare payments to providers of up to 2% per fiscal year, which went into effect on April 1, 2013 and will remain in effect through 2025 unless additional Congressional action is taken. The Medicare Access and CHIP Reauthorization Act of 2015, enacted on April 16, 2015 (MACRA), repealed the formula by which Medicare made annual payment adjustments to physicians and replaced the former formula with fixed annual updates and a new system of incentive payments scheduled to begin in 2019 that are based on various performance measures and physicians’ participation in alternative payment models such as accountable care organizations.

There have been judicial and congressional challenges to certain aspects of the ACA. In addition, Congress could consider subsequent legislation to repeal or potentially replace certain elements of the ACA. Any regulatory or legislative developments in domestic or foreign markets that eliminates or reduces reimbursement rates for procedures performed with our products could harm our ability to sell our products or cause downward pressure on the prices of our products, either of which would affect our ability to generate the revenues necessary to support our business.

*The Foreign Corrupt Practices Act:* The Foreign Corrupt Practices Act, or FCPA, prohibits any U.S. individual or business from paying, offering or authorizing payment or offering of anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of the foreign entity in order to assist the individual or business in obtaining or retaining business. The FCPA also obligates companies whose securities are listed in the United States to comply with accounting provisions requiring the company to maintain books and records that accurately and fairly reflect all transactions of the corporation, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations.

*The UK Bribery Act.* The UK Bribery Act prohibits giving, offering or promising bribes to any person, including non-UK government officials and private persons, as well as requesting, agreeing to receive, or accepting bribes from any person. In addition, under the UK Bribery Act, companies which carry on a business or part of a business in the UK, as we do, may be held liable for bribes given, offered or promised to any person, including non-UK government officials and private persons, by employees and persons associated with the company in order to obtain or retain business or a business advantage for the company. Liability is strict, with no element of a corrupt state of mind, but a defense of having in place adequate procedures designed to prevent bribery is available. Furthermore, under the UK Bribery Act there is no exception for facilitation payments.

## **Employees**

As of December 31, 2016, we had 518 employees globally. We believe the success of our business depends, in part, on our ability to attract and retain qualified personnel. We are committed to developing our employees and providing them with opportunities to contribute to our growth and success. Our employees are not subject to a collective bargaining agreement, and we believe that we have good relations with our employees.

## **About Us**

We were incorporated in Minnesota in March 2006 and reincorporated in Delaware in October 2006. We completed the initial public offering of our common stock in November 2014. Our common stock is currently listed on the New York Stock Exchange (NYSE) under the symbol “NVRO.” Our principal executive offices are located at 1800 Bridge Parkway, Redwood City, California 94065. Our telephone number is (650) 251-0005. Our website address is [www.nevro.com](http://www.nevro.com). The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K, or Annual Report, or any other filings we make with the U.S. Securities and Exchange Commission, or SEC.

## **Available Information**

We make available on or through our website certain reports and amendments to those reports that we file with, or furnish to, the SEC in accordance with the Securities Exchange Act of 1934, as amended, or the Exchange Act. These include our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make this information available on or through our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. This information is also available by writing to us at the address on the cover of this Annual Report. Copies of this information may be obtained at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at [www.sec.gov](http://www.sec.gov). The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report or any other filings we make with the SEC.

## **ITEM 1A. RISK FACTORS**

*Our business involves significant risks, some of which are described below. You should carefully consider these risks, as well as the other information in this Annual Report, including our financial statements and the related notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The occurrence of any of the events or developments described below could harm our business, financial condition, results of operations and growth prospects. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business.*

### **Risks Related to our Business**

***We have a history of significant losses. If we do not achieve and sustain profitability, our financial condition could suffer.***

We have experienced significant net losses, and have no assurance that we will achieve profitability. In May 2015, the FDA approved our PMA to market Senza in the United States and we commenced commercial sales in the United States in mid-2015. We expect to continue to incur losses as we build our U.S. commercial sales force and continue our commercial launch in the United States, as well as continue to investigate the use of our HF10 therapy to treat other chronic pain conditions. We incurred net losses of \$31.8 million, \$67.4 million and \$30.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016 our accumulated deficit was \$221.2 million. Our prior losses have had, and will continue to have, an adverse effect on our stockholders’ equity and working capital. If our revenue grows more slowly than we anticipate, or if our operating expenses are higher than we expect, we may not be able to achieve profitability and our financial condition could suffer. For example, we have recently filed a complaint against Boston Scientific alleging patent infringement, and Boston Scientific Corporation followed by filing a complaint against us alleging patent infringement. These lawsuits may result in substantial legal expenses. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

***We are substantially dependent on continued market acceptance in the United States for our HF10 therapy, and the failure of our HF10 therapy to continue to gain market acceptance would negatively impact our business.***

Since our inception, we have devoted substantially all of our efforts to the development and commercialization of Senza and HF10 therapy for the treatment of chronic leg and back pain. Prior to mid-2015, our revenue was derived nearly entirely from sales of Senza in Europe and Australia. Although we received approval of our PMA in May 2015, we are still in the early stages of our commercialization efforts in the United States and have a limited history of commercializing our product in the United States. We have incurred, and anticipate we will in the future incur, significant costs, including costs to continue to build our sales force in order to sustain our commercial sales in the United States. If we are unable to continue to achieve significant market acceptance in the United States, our results of operations will be adversely affected as the United States is expected to be the principal market for Senza. Because we do not have any other products currently in development, if we are unsuccessful in our continuing efforts to commercialize Senza or are unable to market Senza as a result of a quality problem, failure to maintain or obtain additional regulatory approvals, unexpected or serious complications or other unforeseen negative effects related to our HF10 therapy or the other factors discussed in these risk factors, we would lose our only source of revenue, and our business will be materially adversely affected.

We also have limited experience engaging in commercial activities and limited established relationships with physicians and hospitals as well as third-party suppliers on whom we depend for the manufacture of our product. We may be unable to gain broader market acceptance in the countries in which we have already begun to commercialize Senza, including the United States, for a number of reasons, including:

- established competitors with strong relationships with customers, including physicians, hospitals and third-party suppliers;
- limitations in our ability to demonstrate differentiation and advantages of our product compared to competing products and the relative safety, efficacy and ease of use of our product;
- the limited size of our sales force and the learning curve required to gain experience selling our product;

- the inability to obtain sufficient supply of the components for Senza or secure second-source suppliers if our main suppliers are unable to fulfill our orders;
- insufficient financial or other resources to support our commercialization efforts necessary to reach profitability; and
- the introduction and market acceptance of new, more effective or less expensive competing products and technologies.

Moreover, physicians and hospitals may not perceive the benefits of our products and may be unwilling to change from the SCS devices they are currently using. Communicating the benefits of Senza and HF10 therapy to these physicians and hospitals requires a significant commitment by our marketing team and sales organization. Physicians and hospitals may be slow to change their practices because of perceived risks arising from the use of new products. Physicians may not recommend or use Senza until there is more long-term commercial experience to convince them to alter their existing treatment methods, or until they receive additional recommendations from other physicians that our product is effective. We cannot predict when, if ever, physicians and hospitals may adopt use of our product. If we are unable to educate physicians and hospitals about the advantages of our HF10 therapy and Senza, do not continue to gain market acceptance of our product, or fail to significantly grow our market share, we will not be able to grow our revenue and our business and financial condition will be adversely affected.

***We are currently, and may in the future become, involved in lawsuits to protect or enforce our intellectual property, which could be expensive and time consuming, and ultimately unsuccessful, and could result in the diversion of significant resources, thereby hindering our ability to effectively grow sales of our Senza system or commercialize future products, if any. If we are unable to obtain, maintain, protect, and enforce our intellectual property, our business will be negatively affected.***

The market for medical devices is subject to rapid technological change and frequent litigation regarding patent and other intellectual property rights. It is possible that our patents or licenses may not withstand challenges made by others or protect our rights adequately.

Our success depends in large part on our ability to secure effective patent protection for our products and processes in the United States and internationally. We have filed and intend to continue to file patent applications for various aspects of our technology and trademark applications to protect our brand and business. We seek to obtain and maintain patents and other intellectual property rights to restrict the ability of others to market products or services that misappropriate our technology and/or infringe our intellectual property to compete with our products.

However, we face the risks that:

- We may fail to secure necessary patents, potentially permitting competitors to market competing products and make, use or sell products that are substantially the same as ours without incurring the sizeable development costs that we have incurred, which would adversely affect our ability to compete.
- Patents may not issue from any of our currently pending or future patent applications.
- Our already-granted patents and any future patents may not survive legal challenges, including the pending lawsuit filed by Boston Scientific to their scope, validity or enforceability, or provide significant protection for us, and they may be re-examined or invalidated, and/or may be found to be unenforceable or not cover competing products.
- Even if our patents are determined by a court to be valid and enforceable, they may not be drafted or interpreted broadly enough to prevent others from marketing products and services similar to ours. Similarly, others may simply design around our patents. For example, third parties may be able to make systems or devices that are similar to ours but that are not covered by the claims of our patents. Third parties may assert that we or our licensors were not the first to make the inventions covered by our issued patents or pending patent applications. The claims of our issued patents or patent applications when issued may not cover our commercial technology or the future products and services that we develop. We may not have freedom to operate unimpeded by the patent rights of others. Third parties may have dominating, blocking or other patents relevant to our technology of which we are not aware.

In addition, because patent applications in the United States and many foreign jurisdictions are typically not published until 18 months after the filing of certain priority documents (or, in some cases, are not published until they issue as patents) and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for our technology or our contemplated technology. Any such patent applications may have priority over our patent applications or issued patents, which could further require us to obtain rights to issued patents covering such technologies. If another party has filed a U.S. patent application on inventions similar to ours, depending on when the timing of the filing date falls under certain patent laws, we may have to participate in a priority contest (such as an interference proceeding) declared by the U.S. Patent and Trademark Office (USPTO), to determine priority of invention in the United States. There may be prior public disclosures that could invalidate our inventions or parts of our inventions of which we are not aware. Further, we may not develop additional proprietary technologies and, even if we do, they may not be patentable.

- Patent law can be highly uncertain and involve complex legal and factual questions for which important principles remain unresolved. In the United States and in many foreign jurisdictions, policies regarding the breadth of claims allowed in patents can be inconsistent. The U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit have made, and will likely continue to make, changes in how the patent laws of the United States are interpreted. Similarly, foreign courts have made, and will likely continue to make, changes in how the patent laws in their respective jurisdictions are interpreted. We cannot predict future changes in the interpretation of patent laws or changes to patent laws that might be enacted into law by U.S. and foreign legislative bodies. Those changes may materially affect our patents or patent applications, our ability to obtain patents or the patents and patent applications of our licensors. Future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage, which could adversely affect our financial condition and results of operations.
- Monitoring unauthorized uses of our intellectual property is difficult and costly. From time to time, we seek to analyze our competitors' products and services. For example, in November 2016, we filed a complaint against Boston Scientific in order to enforce certain of our patents, and may in the future seek to enforce our patents or other proprietary rights against other potential infringements. However, the steps we have taken to protect our proprietary rights may not be adequate to prevent misappropriation of our intellectual property. We may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Our competitors may also independently develop similar technology. Any inability to meaningfully protect our intellectual property could result in competitors offering products that incorporate our product features, which could reduce demand for our products. In addition, we may need to defend our patents from third-party challenges, including interferences, derivation proceedings, re-examination proceedings, post-grant review, *inter partes* review, third-party submissions, oppositions, nullity actions, or other patent proceedings. We may also need to initiate infringement claims or litigation. Adverse proceedings such as litigation or challenges to the validity of our patents can be expensive, time consuming and may divert the efforts of our technical and managerial personnel, which could in turn harm our business, whether or not we receive a determination favorable to us. In addition, in an infringement or other adverse proceeding, a court may decide that the patent we seek to enforce is invalid or unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that the patent in question does not cover the technology in question. An adverse result in any litigation or proceeding could place one or more of our patents at risk of being invalidated, interpreted narrowly or found unenforceable. Some of our competitors may be able to devote significantly more resources to intellectual property litigation, and may have significantly broader patent portfolios to assert against us, if we assert our rights against them. Further, because of the substantial discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be disclosed or otherwise compromised during litigation.

- We may not be able to accurately estimate or control our future operating expenses in relation to obtaining, enforcing and/or defending intellectual property, which could lead to cash shortfalls. Our operating expenses may fluctuate significantly in the future as a result of the costs of preparing, filing, prosecuting, defending and enforcing patent claims and other patent related costs, including litigation costs and the results of such litigation.
- We may also be forced to enter into cross-license agreements with competitors in order to manufacture, use, sell, import and/or export products or services that are covered by our competitors' intellectual property rights. If we need to use our intellectual property to enter such cross-license agreements, it may compromise the value of our intellectual property due to the fact that our competitors may be able to manufacture, use, sell, import and/or export our patented technology.

For additional information regarding risks related to our intellectual property, see "Risks Related to Intellectual Property."

***We must continue to educate physicians and demonstrate to them the merits of our HF10 therapy compared to those of our competitors.***

Physicians play a significant role in determining the course of a patient's treatment and the type of product that will be used to treat a patient. An important part of our sales process includes the education of physicians on the safe and effective use of our HF10 therapy and Senza, particularly because Senza and high-frequency neuromodulation treatment is relatively new as compared to existing low-frequency traditional SCS systems. As a result, our success depends, in large part, on effectively marketing our HF10 therapy to physicians, including the results of our pivotal SENZA-RCT study. In order for us to sell Senza, we must successfully demonstrate to physicians the merits of our HF10 therapy compared to our competitors' SCS systems for use in treating patients with chronic leg and back pain. Acceptance of our HF10 therapy depends on educating physicians as to the distinctive characteristics, perceived benefits, safety, ease of use and cost-effectiveness of Senza as compared to our competitors' SCS systems, and communicating to physicians the proper application of our HF10 therapy. Physicians typically need to perform several procedures to become comfortable using HF10 therapy and Senza. If a physician experiences difficulties during an initial procedure or otherwise, that physician may be less likely to continue to use our product or to recommend it to other physicians. It is critical to the success of our commercialization efforts that we educate physicians on the proper use of Senza. If we are not successful in educating physicians and convincing them of the merits of our HF10 therapy or educating them on the use of Senza, they may not use Senza and we may be unable to increase our sales, sustain our growth or achieve profitability.

In addition, we believe support of our products by physicians is essential for market acceptance and adoption. If we do not receive support from physicians or long-term data does not show the benefits of using our HF10 therapy, physicians may not use Senza. In such circumstances, our results of operations would be materially adversely affected. It is also important for our growth that these physicians advocate for the benefits of our products in the broader marketplace. If physicians misuse or ineffectively use our products, it could result in unsatisfactory patient outcomes, patient injuries, negative publicity or lawsuits against us, any of which could have an adverse effect on our business.

***Our competitors are large, well-established companies with substantially greater resources than we have and have a long history of competing in the SCS market.***

Our current and potential competitors are publicly traded, or are divisions of publicly traded, major medical device companies that have substantially greater financial, technical, sales and marketing resources than we have. We estimate the existing global SCS market to be approximately \$1.6 to \$1.8 billion, with the United States comprising approximately 80% of the market. Given the size of the existing and potential market in the United States, we expect that as we work to increase our market position and penetration in the United States our competitors will take aggressive action to protect their current market position. For example, in May 2015, a unit of Boston Scientific, one of our principal competitors, filed with the USPTO two petitions for *inter partes* review challenging the validity of our U.S. Patent No. 8,359,102 (the '102 patent), which the Patent Trial and Appeals Board (PTAB) at the USPTO denied in November 2015, and, in December 2016, filed another lawsuit against us in the U.S. District Court for the District of Delaware alleging that we infringed their patents covering technology

related to stimulation leads, batteries and telemetry units. We will face significant competition in establishing our market share in the United States and may encounter unforeseen obstacles and competitive challenges in the United States.

In addition, we face a particular challenge overcoming the long-standing practices by some physicians of using the neuromodulation products of our larger, more established competitors. Physicians who have completed many successful implants using the neuromodulation products made by these competitors may be reluctant to try new products from a source with which they are less familiar. If these physicians do not try and subsequently adopt our product, then our revenue growth will slow or decline.

Further, a number of our competitors are currently conducting, or we anticipate will be conducting, clinical trials to demonstrate the results of their SCS systems. The results of these trials may be equivalent to, or potentially better than, the results of our pivotal U.S. trial.

***If our competitors are better able to develop and market neuromodulation products that are safer, more effective, less costly, easier to use or otherwise more attractive than Senza, our business will be adversely impacted.***

The medical device industry is highly competitive and subject to technological change. Our success depends, in part, upon our ability to establish a competitive position in the neuromodulation market by securing broad market acceptance of our HF10 therapy and Senza for the treatment of chronic pain conditions. Any product we develop that achieves regulatory clearance or approval, including Senza, will have to compete for market acceptance and market share. We believe that the primary competitive factors in the neuromodulation market are demonstrated clinical effectiveness, product safety, reliability and durability, ease of use, product support and service, minimal side effects and salesforce experience and relationships. We face significant competition in the United States and internationally, which we believe will continue to intensify as we grow our presence in the U.S. market. For example, our major competitors, Medtronic, Boston Scientific and Abbott Laboratories, which recently acquired St. Jude Medical, each has approved neuromodulation systems in at least the United States, Europe, and Australia and have been established for several years. In addition, in October 2016, St. Jude Medical (now a part of Abbott Laboratories) obtained FDA approval for a SCS system that offers an alternate low frequency waveform called BurstDR, and in February 2016, the company gained approval for a neuromodulation system that stimulates the dorsal root ganglion for treatment of focal pain and complex regional pain syndrome. Additionally, we believe that Boston Scientific is in the later stages of a randomized clinical trial of high-frequency SCS therapy. In addition to these major competitors, we may also face competition from smaller companies such as Nuvectra, Saluda and Stimwave. Additionally, there are other emerging competitors with active neuromodulation system development programs that may emerge in the future. Many of the companies developing or marketing competing products enjoy several advantages over us, including:

- more experienced sales forces;
- greater name recognition;
- more established sales and marketing programs and distribution networks;
- earlier regulatory approval;
- long established relationships with physicians and hospitals;
- significant patent portfolios, including issued U.S. and foreign patents and pending patent applications, as well as the resources to enforce patents against us or any of our third-party suppliers and distributors;
- the ability to acquire and integrate our competitors and/or their technology;
- demonstrated ability to develop product enhancements and new product offerings;
- established history of product reliability, safety and durability;
- the ability to offer rebates or bundle multiple product offerings to offer greater discounts or incentives;

- greater financial and human resources for product development, sales, and marketing; and
- greater experience in and resources for conducting R&D, clinical studies, manufacturing, preparing regulatory submissions, obtaining regulatory clearance or approval for products and marketing approved products.

Our competitors may develop and patent processes or products earlier than we do, obtain patents that may apply to us at any time, obtain regulatory clearance or approvals for competing products more rapidly than we do or develop more effective or less expensive products or technologies that render our technology or products obsolete or less competitive. We also face fierce competition in recruiting and retaining qualified sales, scientific, and management personnel, establishing clinical trial sites and enrolling patients in clinical studies. If our competitors are more successful than we are in these matters, our business may be harmed.

***Our success depends on physicians' use of our HF10 therapy to treat chronic back pain.***

Our success is dependent on physicians' acceptance and use of our HF10 therapy to treat chronic back pain. We believe a significant limitation of current neuromodulation systems is the limited evidence supporting efficacy of traditional SCS for treating chronic back pain. Senza utilizes high-frequency stimulation technology capable of delivering waveform of up to 10,000 Hz for spinal cord stimulation that has been shown to be effective in the treatment of both leg and back pain. However, we may face challenges convincing physicians, many of whom have extensive experience with competitors' SCS products and established relationships with other companies, to appreciate the benefits of HF10 therapy and, in particular, its ability to treat back pain as well as leg pain, and adopt it for treatment of their patients. If Senza is unable to gain acceptance by physicians for the treatment of back pain, our potential to expand the existing neuromodulation market will be significantly limited and our revenue potential will be negatively impacted.

***If third-party payors do not provide adequate coverage and reimbursement for the use of Senza, our revenue will be negatively impacted.***

Our success in marketing Senza depends and will depend in large part on whether U.S. and international government health administrative authorities, private health insurers and other organizations adequately cover and reimburse customers for the cost of our products.

In the United States, we expect to derive nearly all our sales from sales of Senza to hospitals and outpatient surgery centers who typically bill various third-party payors, including Medicare, Medicaid, private commercial insurance companies, health maintenance organizations and other healthcare-related organizations, to cover all or a portion of the costs and fees associated with Senza and bill patients for any applicable deductibles or co-payments. Access to adequate coverage and reimbursement for SCS procedures using Senza (and our other products in development) by third-party payors is essential to the acceptance of our products by our customers.

We believe that SCS procedures using Senza are adequately described by existing CPT, HCPCS II and ICD-10-CM codes for the implantation of spinal cord stimulators and related leads performed in various sites of care, although such codes generally do not specifically describe procedures using either low-frequency or high-frequency stimulation. In the United States, CMS has approved a transitional pass-through payment for High-Frequency Stimulation under the Medicare hospital outpatient prospective payment system effective as of January 1, 2016. This pass-through payment for HF10 therapy is in addition to the established reimbursement for spinal cord stimulation devices; however, this pass-through payment is scheduled to expire on December 31, 2017.

We believe that some of our target customers may be unwilling to adopt Senza over more established or lower-cost therapeutic alternatives already available or subsequently become available. Further, any decline in the amount payors are willing to reimburse our customers for SCS procedures using Senza could make it difficult for new customers to adopt Senza and could create additional pricing pressure for us, which could adversely affect our ability to invest in and grow our business.

Third-party payors, whether foreign or domestic, or governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. In addition, in the United States, no uniform policy of



coverage and reimbursement for medical device products and services exists among third-party payors. Therefore, coverage and reimbursement for medical device products and services can differ significantly from payor to payor. For example, certain regional Blue Cross Blue Shield plans have denied coverage for Senza on the basis that high-frequency neuromodulation is investigational and/or experimental. We continue to engage in efforts to convince such payors of the advantages of HF10 therapy, and while we have overturned some investigational/experimental designations, such as Blue Cross Blue Shield Highmark and Blue Cross Blue Shield of Alabama, there can be no assurances that we are successful in overturning negative coverage decisions by private health insurance plans. In addition, payors continually review new technologies for possible coverage and can, without notice, deny coverage for these new products and procedures. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be obtained, or maintained if obtained.

Reimbursement systems in international markets vary significantly by country and by region within some countries, and reimbursement approvals must be obtained on a country-by-country basis. In many international markets, a product must be approved for reimbursement before it can be approved for sale in that country. Further, many international markets have government-managed healthcare systems that control reimbursement for new devices and procedures. For example, the governmental healthcare system in France has not yet approved reimbursement of Senza. In most markets there are private insurance systems as well as government-managed systems. If sufficient coverage and reimbursement is not available for our current or future products, in either the United States or internationally, the demand for our products and our revenues will be adversely affected.

***If we fail to develop and retain an effective direct sales force in the United States, our business could suffer.***

As we continue our commercial launch and increase our marketing efforts, we will need to retain, develop and grow the number of direct sales personnel that we employ. We intend to continue to make a significant investment in recruiting and training sales representatives and clinical representatives as we continue our commercial launch in the United States. There is significant competition for sales personnel experienced in relevant medical device sales. Once hired, the training process is lengthy because it requires significant education for new sales representatives to achieve the level of clinical competency with our products expected by physicians. Upon completion of the training, our sales representatives typically require lead time in the field to grow their network of accounts and achieve the productivity levels we expect them to reach in any individual territory. Furthermore, the use of our products often requires or benefits from direct support from us. If we are unable to attract, motivate, develop and retain a sufficient number of qualified sales personnel, or if our sales representatives do not achieve the productivity levels we expect them to reach, our revenue will not grow at the rate we expect and our financial performance will suffer. Also, to the extent we hire personnel from our competitors, our new sales representatives will usually be subject to restrictive covenants with their former employers, including non-competition, non-solicitation and/or confidentiality provisions. As a result, we may have to wait until applicable non-competition provisions have expired before deploying such personnel in restricted territories or incur costs to relocate personnel outside of such territories. We and certain of our new sales representatives have been, continue to be, and may in the future be, subject to allegations that these new hires have violated the non-competition clauses, been improperly solicited or divulged to us proprietary or other confidential information of their former employers. Any of these risks may adversely affect our business.

***Our past results in the international markets in which we commercialize Senza should not be relied upon as an indication of our future performance in those markets or in the United States.***

Our revenue from international markets has increased from \$18.2 million for the year ended December 31, 2012 to \$55.2 million for the year ended December 31, 2016 on the basis of our sales of Senza in Europe and Australia; however, we do not expect to continue this rate of revenue growth in these international markets. Due to our current penetration in these markets, we expect our revenue to stay stable in these international markets and not grow at rate it did historically. Furthermore, given our recent commercialization in the United States, we have not developed an extended history of payment and therefore we may encounter difficulties in collecting receivables related to our U.S. sales.

In addition, the characteristics of these markets differ significantly from the U.S. market, including as a result of differences in payor systems, competitive dynamics, market size and patient treatment regimens. As a result of

the differences in these markets, you should not compare our financial results in the international market to any potential future results in the U.S. market nor should you rely on our past results as an indication of our future performance.

***If we fail to maintain U.S. Food and Drug Administration approval to market and sell Senza, or if such approval is impacted in the future, we will be unable to commercially distribute and market Senza in the United States. Further, we may not be able to obtain required regulatory approvals to expand the indications for which we may market and sell Senza.***

The FDA requires manufacturers of medical devices to maintain regulatory approval by filing timely reports and complying with numerous regulations. While we have received FDA approval of our Senza PMA application, there can be no assurance that approval will be maintained. For example:

- we may not be able to maintain to the FDA's satisfaction that our product is safe and effective for its intended use;
- we may fail to comply with the guidelines required by FDA and other agencies to maintain our PMA approval; and
- the manufacturing processes and facilities we and our vendors use may not meet applicable requirements to maintain our PMA approval.

In addition, we may suffer from product liability or other issues that impact our ability to continue to market the Senza system in the United States.

Failing to maintain FDA approval could result in unexpected and significant costs for us and consume management's time and other resources. The FDA could ask us to improve or augment manufacturing processes, collect and provide data on the quality or safety of our product or issue us warning letters relating to matters that may result in removal of our product from the market. Additionally, we will be required to obtain FDA approval prior to making any modification to the device, and the FDA may revoke the approval or impose other restrictions if post-market data demonstrates safety issues or lack of effectiveness. If we are unable to obtain and maintain the necessary regulatory approvals, our financial condition may be adversely affected, and our ability to grow domestically and internationally would likely be limited.

We are currently conducting clinical trials for Senza to explore the potential for HF10 therapy to treat other chronic pain indications, including chronic upper limb and neck pain, painful neuropathies and non-surgical refractory back pain. We will likely need to conduct additional clinical studies in the future to support approval for these new indications. Senza may not be approved for these additional indications.

***Traditional SCS has been available for almost 50 years, while Senza has only been commercially available since 2010 and, as a result, we have a limited track record compared to our competitors.***

Traditional SCS has been commercialized since 1967, while we only began commercializing Senza internationally in 2010 and in the United States since May 2015. Because we have a limited commercial track record compared to our competitors and Senza has been implanted in patients for significantly less time than our competitors' products, physicians may be slower to adopt or recommend Senza. Further, while we believe our international commercial experience and recent U.S. commercial experience, and our European two-year study and U.S. pivotal study support the safety and effectiveness of our HF10 therapy, future studies or patient experience over a longer period of time may indicate that treatment with our HF10 therapy does not achieve non-inferiority status as compared to treatment with competitive products or that our HF10 therapy causes unexpected or serious complications or other unforeseen negative effects. Such results would likely slow the adoption of Senza and significantly reduce our sales, which would harm our business and adversely affect our results of operations.

Furthermore, if patients with traditional SCS implantations were to experience unexpected or serious complications or other unforeseen effects, the market for Senza may be adversely affected, even if such effects are not applicable to Senza.

***Our international operations subject us to certain operating risks, which could adversely impact our results of operations and financial condition.***

In 2010, we began selling Senza in Europe and, in August 2011, we began selling Senza in Australia. As of December 31, 2016, we sell Senza directly in Austria, Switzerland, United Kingdom, Sweden, Australia, Belgium, Luxembourg, Norway and Germany and through distributors and agents located in the Netherlands, Spain, Italy, Slovakia, Turkey, Kuwait and Ireland. The sale and shipment of Senza across international borders, as well as the purchase of components from international sources, subject us to United States and foreign governmental trade, import and export and customs regulations and laws.

Compliance with these regulations and laws is costly and exposes us to penalties for non-compliance. Other laws and regulations that can significantly impact us include various anti-bribery laws, including the U.S. Foreign Corrupt Practices Act, as well as export controls laws. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities and exclusion or debarment from government contracting.

Our international operations expose us and our distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- difficulties in enforcing our intellectual property rights and in defending against third-party threats and intellectual property enforcement actions against us, our distributors, or any of our third-party suppliers;
- reduced or varied protection for intellectual property rights in some countries;
- pricing pressure that we may experience internationally;
- foreign currency exchange rate fluctuations;
- a shortage of high-quality sales people and distributors;
- third-party reimbursement policies that may require some of the patients who receive our products to directly absorb medical costs or that may necessitate the reduction of the selling prices of Senza;
- relative disadvantages compared to competitors with established business and customer relationships;
- the imposition of additional U.S. and foreign governmental controls or regulations;
- economic instability;
- changes in duties and tariffs, license obligations and other non-tariff barriers to international trade;
- the imposition of restrictions on the activities of foreign agents, representatives and distributors;
- scrutiny of foreign tax authorities that could result in significant fines, penalties and additional taxes being imposed on us;
- laws and business practices favoring local companies;
- longer payment cycles;
- difficulties in maintaining consistency with our internal guidelines;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- the imposition of costly and lengthy new export licensing requirements;
- the imposition of U.S. or international sanctions against a country, company, person or entity with whom we do business that would restrict or prohibit continued business with the sanctioned country, company, person or entity; and
- the imposition of new trade restrictions.

If we experience any of these risks, our sales in non-U.S. jurisdictions may be harmed and our results of operations would suffer.

***Changes in tax law and other developments resulting from the new presidential administration in the United States may have a material adverse effect on our business, financial condition and results of operations.***

Changes in laws and policy relating to taxes or trade may have an adverse effect on our business, financial condition and results of operations. Potential tax reforms in the United States may result in significant changes to current U.S. tax rules and regulations. These potential changes may trigger an adverse effect on our business, financial conditions and results of operations.

Although we are unable to predict what, if any, changes in tax law will occur, the 2016 U.S. presidential election introduced a great deal of uncertainty regarding current tax and trade policies, tariffs and government regulations, which if altered could have the potential to create a significant adverse effect on trade between the U.S. and other countries. Overall, changes in international trade relations and changes to U.S. tax or other laws (including new or changes in regulations promulgated by the U.S. Internal Revenue Service and the U.S. Department of the Treasury), such as the imposition of or increase in tariffs or other trade barriers, could materially and adversely impact our effective tax rate, increase our costs and reduce the competitiveness of our products.

***We are dependent upon third-party manufacturers and suppliers, in some cases sole- or single-source suppliers, making us vulnerable to supply shortages and problems and price fluctuations, which could harm our business.***

We rely on a limited number of suppliers who manufacture and assemble certain components of Senza.

Our suppliers may encounter problems during manufacturing for a variety of reasons, including, for example, failure to follow specific protocols and procedures, failure to comply with applicable legal and regulatory requirements, equipment malfunction and environmental factors, failure to properly conduct their own business affairs and infringement of third-party intellectual property rights, any of which could delay or impede their ability to meet our requirements. Our reliance on these third-party suppliers also subjects us to other risks that could harm our business, including:

- third parties may threaten or enforce their intellectual property rights against our suppliers, which may cause disruptions or delays in shipment, or may force our suppliers to cease conducting business with us;
- we may not be able to obtain adequate supplies from one or more vendors in a timely manner or on commercially reasonable terms;
- we are not a major customer of many of our suppliers, and these suppliers may therefore give other customers' needs higher priority than ours;
- our suppliers, especially new suppliers, may make errors in manufacturing that could negatively affect the efficacy or safety of Senza, impacting our ability to maintain our PMA approval, or cause delays in shipment, impacting our ability to meet demand in the United States or international markets;
- we may have difficulty locating and qualifying alternative suppliers;
- switching components or suppliers may require product redesign and possibly submission to FDA, EEA Notified Bodies or other foreign regulatory bodies, which could significantly impede or delay our commercial activities;
- one or more of our sole- or single-source suppliers may be unwilling or unable to supply components of Senza, or may supply products that do not meet our product requirements;
- other customers may use fair or unfair negotiation tactics and/or pressures to impede our use of the supplier;

- the occurrence of a fire, natural disaster or other catastrophe impacting one or more of our suppliers may affect their ability to deliver products to us in a timely manner; and
- our suppliers may encounter financial or other business hardships unrelated to our demand, which could inhibit their ability to fulfill our orders and meet our requirements.

We may not be able to quickly establish additional or alternative suppliers for commercialization in the United States if necessary, in part because we may need to undertake additional activities to qualify such suppliers as required by the regulatory approval process. Any interruption or delay in obtaining products from our third-party suppliers, or our inability to obtain products from qualified alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and cause them to switch to competing products. Given our reliance on certain single-source suppliers, we are especially susceptible to supply shortages because we do not have alternate suppliers currently available.

***We rely upon third-party, single-source, and in certain cases sole-source, suppliers for many of the components and materials used in Senza, and for critical manufacturing and packaging services, and the loss of any of these suppliers could harm our business.***

A number of the critical components used in Senza are supplied to us from single-source, or in certain cases sole-source, suppliers, including leads, lead extenders, surgical leads, neurostimulator components and telemetry modules. Our ability to supply Senza commercially depends, in part, on our ability to obtain a supply of these components that has been manufactured in accordance with regulatory requirements and in sufficient quantities for commercialization and clinical testing. We have not entered into manufacturing, supply or quality agreements with some of our single-source and sole-source suppliers, some of which supply components critical to our products. We are not certain that our single-source or sole-source suppliers will be able to meet our demand for their products and services, either because of the nature of our agreements with those suppliers, or our limited experience with those suppliers, or due to our relative importance as a customer to those suppliers or otherwise. It may be difficult for us to assess their ability to timely meet our demand in the future based on past performance. While our suppliers have generally met our demand for their products on a timely basis in the past, they may subordinate our needs in the future to the needs of their other customers.

Establishing additional or replacement suppliers for the components or processes used in Senza, if required, may not be accomplished quickly. If we are able to find a replacement supplier, such replacement supplier would need to be qualified and may require additional regulatory authority approval, which could result in further delay. While we seek to maintain adequate inventory of the single-source or sole-source components and materials used in our products, any interruption or delay in the supply of components or materials, or our inability to obtain components or materials from alternate sources at acceptable prices in a timely manner, could impair our ability to meet the demand of our customers and cause them to cancel orders. In addition, from time to time, certain of our suppliers experience interruptions and variances in their manufacturing processes, including suppliers of our leads and batteries. Because we are reliant on these single source suppliers, we are particularly susceptible to supply shortages and, if one of our suppliers were to experience an ongoing or continued manufacturing problem, and, in particular, our leads and battery suppliers, our ability to meet our forecasted commercial demand could be materially and negatively impacted.

If our third-party suppliers fail to deliver the required commercial quantities of materials, or the level of services we require, on a timely basis and at commercially reasonable prices, and we are unable to find one or more replacement suppliers capable of production at a substantially equivalent cost in substantially equivalent volumes and quality, and on a timely basis, the continued commercialization of Senza would be impeded, delayed, limited or prevented, which could harm our business, results of operations, financial condition and prospects.

***We may not be able to establish or strengthen our brand.***

We believe that establishing and strengthening the Nevro and Senza brands is critical to achieving widespread acceptance of HF10 therapy, particularly because of the highly competitive nature of the market for SCS products. Promoting and positioning our brand will depend largely on the success of our marketing efforts and our ability to provide physicians with a reliable product for successful treatment of chronic leg and back pain. Additionally, we

believe the quality and reliability of our product is critical to building physician support of this new therapy in the United States and any negative publicity regarding the quality or reliability of Senza could significantly damage our reputation in the market. Further, given the established nature of our competitors, and our recent commercial launch in the United States, it is likely that our future marketing efforts will require us to incur significant additional expenses. These brand promotion activities may not yield increased sales and, even if they do, any sales increases may not offset the expenses we incur to promote our brand. If we fail to successfully promote and maintain our brand, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, our HF10 therapy may not be accepted by physicians, which would adversely affect our business, results of operations and financial condition.

***Our ability to achieve profitability will depend, in part, on our ability to reduce the per unit manufacturing cost of Senza.***

Currently, the gross profit generated from the sale of Senza is not sufficient to cover our operating expenses. To achieve our operating and strategic goals, we will, among other things, need to reduce the per-unit manufacturing cost of Senza. This cannot be achieved without increasing the volume of components that we purchase in order to take advantage of volume-based pricing discounts, improving manufacturing efficiency or increasing our volume to leverage manufacturing overhead costs. If we are unable to improve manufacturing efficiency and reduce manufacturing overhead costs per unit, our ability to achieve profitability will be severely constrained. Any increase in manufacturing volumes is dependent upon a corresponding increase in sales. The occurrence of one or more factors that negatively impact the manufacturing or sales of Senza or reduce our manufacturing efficiency may prevent us from achieving our desired reduction in manufacturing costs, which would negatively affect our operating results and may prevent us from attaining profitability.

***If we fail to properly manage our anticipated growth, our business could suffer.***

We have been growing rapidly in recent periods and have a relatively short history of operating as a commercial company. As an organization, we have only recently commercially launched our product in the United States and commenced a sales representative training program. A commercial launch and training program of this size is a significant undertaking that requires substantial financial and managerial resources. We intend to continue to grow and may experience periods of rapid growth and expansion, which could place a significant additional strain on our limited personnel, information technology systems and other resources. In particular, the hiring of our direct sales force in the United States requires significant management, financial and other supporting resources. Any failure by us to manage our growth effectively could have an adverse effect on our ability to achieve our development and commercialization goals.

To achieve our revenue goals, we must successfully increase manufacturing output to meet expected customer demand. In the future, we may experience difficulties with manufacturing yields, quality control, component supply and shortages of qualified personnel, among other problems. These problems could result in delays in product availability and increases in expenses. Any such delay or increased expense could adversely affect our ability to generate revenue.

Future growth will also impose significant added responsibilities on management, including the need to identify, recruit, train and integrate additional employees. In addition, rapid and significant growth will place a strain on our administrative and operational infrastructure.

In order to manage our operations and growth we will need to continue to improve our operational and management controls, reporting and information technology systems and financial internal control procedures. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy and our operating results and business could suffer.

***If we fail to receive access to hospital facilities, our sales may decrease.***

In the United States, in order for physicians to use Senza, the hospital facilities where these physicians treat patients typically require us to enter into purchasing contracts. The process of securing a satisfactory contract can be

lengthy and time-consuming and require extensive negotiations and management time. In the EU, from time to time, certain institutions require us to engage in a contract bidding process in the event that such institutions are considering making purchase commitments that exceed specified cost thresholds, which vary by jurisdiction. These processes are only open at certain periods of time, and we may not be successful in the bidding process. If we do not receive access to hospital facilities via these contracting processes or otherwise, or if we are unable to secure contracts or tender successful bids, our sales may stagnate or decrease and our operating results may be harmed. Furthermore, we may expend significant effort in these time-consuming processes and still may not obtain a purchase contract from such hospitals.

***We rely in part on a small group of third-party distributors to effectively distribute our products in outside the United States.***

We depend in part on medical device distributors for the marketing and sales of our products in certain territories in Europe. We depend on these distributors' efforts to market our products, yet we are unable to control their efforts completely. These distributors typically sell a variety of other, non-competing products that may limit the resources they dedicate to selling Senza. In addition, we are unable to ensure that our distributors comply with all applicable laws regarding the sale of our products. If our distributors fail to effectively market and sell Senza in full compliance with applicable laws, our operating results and business may suffer. Recruiting and retaining qualified third-party distributors and training them in our technology and product offering requires significant time and resources. To develop and expand our distribution, we must continue to scale and improve our processes and procedures that support our distributors. Further, if our relationship with a successful distributor terminates, we may be unable to replace that distributor without disruption to our business. If we fail to maintain positive relationships with our distributors, fail to develop new relationships with other distributors, including in new markets, fail to manage, train or incentivize existing distributors effectively, or fail to provide distributors with competitive products on attractive terms, or if these distributors are not successful in their sales efforts, our revenue may decrease and our operating results, reputation and business may be harmed.

***We may face product liability claims that could result in costly litigation and significant liabilities.***

Manufacturing and marketing Senza, and clinical testing of our HF10 therapy, may expose us to product liability and other tort claims. Although we have, and intend to maintain, liability insurance, the coverage limits of our insurance policies may not be adequate and one or more successful claims brought against us may have a material adverse effect on our business and results of operations. For example, the U.S. Supreme Court recently declined to hear an appeal where the U.S. Court of Appeals for the Ninth Circuit ruled that the Medical Device Amendments of 1976 to the FDCA did not preempt state laws in a product liability case involving a medical device company. If other courts in the United States adopt similar rulings, we may be subject to increased litigation risk in connection with our products. Product liability claims could negatively affect our reputation, continued product sales, and our ability to obtain and maintain regulatory approval for our products.

***If clinical studies for future indications do not produce results necessary to support regulatory clearance or approval in the United States or elsewhere, we will be unable to commercialize Senza for these indications.***

We are currently conducting clinical trials for Senza to explore the potential for HF10 therapy to treat other chronic pain indications, including chronic upper limb and neck pain, painful neuropathies and non-surgical refractory back pain. We will likely need to conduct additional clinical studies in the future to support regulatory approval for the use of Senza to treat these new indications. Clinical testing can take many years, is expensive and carries uncertain outcomes. The initiation and completion of any of these studies may be prevented, delayed, or halted for numerous reasons, including, but not limited to, the following:

- the FDA, IRBs, Ethics Committees, EU Competent Authorities or other regulatory authorities do not approve a clinical study protocol, force us to modify a previously approved protocol, or place a clinical study on hold;
- patients do not enroll in, or enroll at a lower rate than we expect, or do not complete a clinical study;
- patients or investigators do not comply with study protocols;

- patients do not return for post-treatment follow-up at the expected rate;
- patients experience serious or unexpected adverse side effects for a variety of reasons that may or may not be related to our products such as the advanced stage of co-morbidities that may exist at the time of treatment, causing a clinical study to be put on hold;
- sites participating in an ongoing clinical study withdraw, requiring us to engage new sites;
- difficulties or delays associated with establishing additional clinical sites;
- third-party clinical investigators decline to participate in our clinical studies, do not perform the clinical studies on the anticipated schedule, or perform in a manner inconsistent with the investigator agreement, clinical study protocol, good clinical practices, other FDA, IRB or Ethics Committee requirements, and EEA Member State or other foreign regulations governing clinical trials;
- third-party organizations do not perform data collection and analysis in a timely or accurate manner;
- regulatory inspections of our clinical studies or manufacturing facilities require us to undertake corrective action or suspend or terminate our clinical studies;
- changes in federal, state, or foreign governmental statutes, regulations or policies;
- interim results are inconclusive or unfavorable as to immediate and long-term safety or efficacy;
- the study design is inadequate to demonstrate safety and efficacy; or
- the statistical endpoints are not met.

Clinical failure can occur at any stage of the testing. Our clinical studies may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical or non-clinical studies in addition to those we have planned. Our failure to adequately demonstrate the safety and effectiveness of any of our devices would prevent receipt of regulatory clearance or approval and, ultimately, the commercialization of that device or indication for use.

We could also encounter delays if the FDA concludes that our financial relationships with investigators results in a perceived or actual conflict of interest that may have affected the interpretation of a study, the integrity of the data generated at the applicable clinical trial site or the utility of the clinical trial itself. Principal investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and receive cash compensation and/or equity-based awards in connection with such services. If these relationships and any related compensation to or ownership interest by the clinical investigator carrying out the study result in perceived or actual conflicts of interest, or if the FDA concludes that the financial relationship may have affected interpretation of the study, the integrity of the data generated at the applicable clinical trial site may be questioned and the utility of the clinical trial itself may be jeopardized, which could result in the FDA refusing to accept the data as support for our future applications. Any such delay or rejection could prevent us from commercializing any of our products currently in development.

Even if our products are approved in the United States, Australia and the EEA, comparable regulatory authorities of additional foreign countries must also approve the manufacturing and marketing of our products in those countries. Approval procedures vary among jurisdictions and can involve requirements and administrative review periods different from, and greater than, those in the United States, Australia or the EEA, including additional preclinical studies or clinical trials. Any of these occurrences may harm our business, financial condition and prospects significantly.

***If we fail to retain our key executives or recruit and hire new employees, our operations and financial results may be adversely effected while we attract other highly qualified personnel.***

Our future success depends, in part, on our ability to continue to retain our executive officers and other key employees, and recruit and hire new employees. All of our executive officers and other employees are at-will employees, and therefore may terminate employment with us at any time with no advance notice. The replacement



of any of our key personnel likely would involve significant time and costs, may significantly delay or prevent the achievement of our business objectives and may harm our business.

In addition, many of our employees have become, or will soon become, vested in a substantial amount of Company stock or be able to exercise a substantial number of stock options. Our employees may be more likely to leave us if the shares they own or the shares underlying their vested options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or if the exercise prices of the options that they hold are significantly below the market price of our common stock. Further, our employees' ability to exercise those options and sell their stock in a public market may result in a higher than normal turnover rate.

Our future success also depends on our ability to retain executive officers and other key employees and attract new key employees. Many executive officers and other employees in the neuromodulation and medical device industry are subject to strict non-competition, non-solicitation and/or confidentiality agreements with their employers, including our main competitors Medtronic plc, Boston Scientific and Abbott Laboratories (which recently acquired St. Jude Medical). Our competitors may allege breaches of, and seek to enforce, such non-competition, non-solicitation and/or confidentiality agreements or initiate litigation based on such agreements, particularly now that we have entered the U.S. market. Such litigation, whether or not meritorious, may impede our ability to attract, hire or utilize executive officers and other key employees who have been or are currently employed by our competitors.

***Failure to protect our information technology infrastructure against cyber-based attacks, network security breaches, service interruptions, or data corruption could significantly disrupt our operations and adversely affect our business and operating results.***

We rely on information technology and telephone networks and systems, including the Internet, to process and transmit sensitive electronic information and to manage or support a variety of business processes and activities, including sales, billing, marketing, procurement and supply chain, manufacturing and distribution. We use enterprise information technology systems to record, process and summarize financial information and results of operations for internal reporting purposes and to comply with regulatory, financial reporting, legal and tax requirements. Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to computer viruses, attacks by computer hackers, failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, telecommunication failures, user errors or catastrophic events. Despite the precautionary measures we have taken to prevent breakdowns in our information technology and telephone systems, if our systems suffer severe damage, disruption or shutdown and we are unable to effectively resolve the issues in a timely manner, our business and operating results may suffer.

### **Risks Related to Intellectual Property**

***We currently are, and may in the future become, involved in lawsuits to defend ourselves against intellectual property disputes, which could be expensive and time consuming, and ultimately unsuccessful, and could result in the diversion of significant resources, and hinder our ability to commercialize our existing or future products.***

Our success depends in part on not infringing the patents or violating the other proprietary rights of others. Intellectual property disputes can be costly to defend and may cause our business, operating results and financial condition to suffer. Significant litigation regarding patent rights occurs in the medical industry. Whether merited or not, it is possible that U.S. and foreign patents and pending patent applications controlled by third parties may be alleged to cover our products. For example, on December 9, 2016, Boston Scientific filed a patent infringement lawsuit alleging our manufacture, use and sale of the Senza system infringes certain of Boston Scientific's patents covering technology related to stimulation leads, batteries and telemetry units. We may also face allegations that our employees have misappropriated the intellectual property rights of their former employers or other third parties. Our competitors in both the United States and abroad, many of which have substantially greater resources and have made substantial investments in patent portfolios and competing technologies, may have applied for or obtained or may in the future apply for and obtain, patents that will prevent, limit, or otherwise interfere with our ability to make, use, sell, and/or export our products. For example, our major competitors, Medtronic, Boston Scientific and Abbott

Laboratories (which recently acquired St. Jude Medical), each have significant patent portfolios covering systems, sub-systems, methods, and manufacturing processes. These competitors may have one or more patents for which they can threaten and/or initiate patent infringement actions against us and/or any of our third-party suppliers. Our ability to defend ourselves and/or our third-party suppliers may be limited by our financial and human resources, the availability of reasonable defenses, and the ultimate acceptance of our defenses by the courts or juries. Further, if such patents are successfully asserted against us, this may result in an adverse impact on our business, including injunctions, damages and/or attorneys' fees. From time to time and in the ordinary course of business, we may develop non-infringement and/or invalidity positions with respect to third-party patents, which may or not be ultimately adjudicated as successful by a judge or jury if such patents were asserted against us.

We may receive in the future, particularly as a public company, communications from patent holders, including non-practicing entities, alleging infringement of patents or other intellectual property rights or misappropriation of trade secrets, or offering licenses to such intellectual property. Any claims that we assert against perceived infringers could also provoke these parties to assert counterclaims against us alleging that we infringe their intellectual property rights. At any given time, we may be involved as either a plaintiff or a defendant in a number of patent infringement actions, the outcomes of which may not be known for prolonged periods of time. We may also become involved in disputes with others regarding the ownership of intellectual property rights. For example, we jointly develop intellectual property with certain parties, and disagreements may therefore arise as to the ownership of the intellectual property developed pursuant to these relationships. If we are unable to resolve these disputes, we could lose valuable intellectual property rights.

The large number of patents, the rapid rate of new patent applications and issuances, the complexities of the technologies involved and the uncertainty of litigation significantly increase the risks related to any patent litigation. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop selling, making, using, or exporting products that use the disputed intellectual property;
- obtain a license from the intellectual property owner to continue selling, making, exporting, or using products, which license may require substantial royalty payments and may not be available on reasonable terms, or at all;
- incur significant legal expenses;
- pay substantial damages or royalties to the party whose intellectual property rights we may be found to be infringing, potentially including treble damages if the court finds that the infringement was willful;
- if a license is available from a third-party, we may have to pay substantial royalties, upfront fees or grant cross-licenses to intellectual property rights for our products and services;
- pay the attorney fees and costs of litigation to the party whose intellectual property rights we may be found to be infringing;
- find non-infringing substitute products, which could be costly and create significant delay due to the need for FDA regulatory clearance;
- find alternative supplies for infringing products or processes, which could be costly and create significant delay due to the need for FDA regulatory clearance; and/or
- redesign those products or processes that infringe any third-party intellectual property, which could be costly, disruptive, and/or infeasible.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business with respect to intellectual property. In particular, on November 28, 2016, we filed a lawsuit for patent infringement against units of Boston Scientific asserting that Boston Scientific is infringing our patents covering inventions relating to our Senza system and HF10 therapy. For more information, see the section titled "Legal Proceedings" included under Part I, Item 3 of this Annual Report. Even if resolved in our favor, litigation or other legal proceedings relating to intellectual property claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities

analysts or investors perceive these results to be negative, it could have a material adverse effect on the price of our common stock and the value of the 1.75% convertible senior notes due 2021 (the 2021 Notes). Finally, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

If any of the foregoing occurs, we may have to withdraw existing products from the market or may be unable to commercialize one or more of our products, all of which could have a material adverse effect on our business, results of operations and financial condition. Any litigation or claim against us, even those without merit, may cause us to incur substantial costs, and could place a significant strain on our financial resources, divert the attention of management from our core business and harm our reputation. Further, as the number of participants in the neuromodulation industry grows, the possibility of intellectual property infringement claims against us increases.

In addition, we may indemnify our customers, suppliers and international distributors against claims relating to the infringement of the intellectual property rights of third parties relating to our products, methods, and/or manufacturing processes. Third parties may assert infringement claims against our customers, suppliers, or distributors. These claims may require us to initiate or defend protracted and costly litigation on behalf of our customers, suppliers or distributors, regardless of the merits of these claims. If any of these claims succeed, we may be forced to pay damages on behalf of our customers, suppliers, or distributors or may be required to obtain licenses for the products they use. If we cannot obtain all necessary licenses on commercially reasonable terms, our customers may be forced to stop using our products, or our suppliers may be forced to stop providing us with products.

Similarly, interference or derivation proceedings provoked by third parties or brought by the USPTO or any foreign patent authority may be necessary to determine the priority of inventions or other matters of inventorship with respect to our patents or patent applications. An unfavorable outcome in these or any other such proceedings could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms, if any license is offered at all.

We may also become involved in other proceedings, such as re-examination or opposition proceedings, before the USPTO or its foreign counterparts relating to our intellectual property or the intellectual property rights of others. For example, two of our competitors, Boston Scientific and Medtronic, have filed oppositions in the European Union with respect to certain of our patents. Defending our position in proceedings such as these will require management's time and attention, as well as financial costs. Given the competitive environment in which we operate, we expect additional challenges to our intellectual property portfolio as we continue commercialization of Senza in the United States. An unfavorable outcome in these or any other such proceedings could cause us to lose valuable intellectual property rights and/or be unable to enforce our intellectual property rights, which could invite increased competition thereby materially harming our business.

***Changes in patent law could diminish the value of patents in general, thereby impairing our ability to protect our existing and future products.***

Patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents. On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications are prosecuted, redefine prior art and may affect patent litigation. The changes also switched the United States patent system from a "first-to-invent" system to a "first-to-file" system. Under a "first-to-file" system, assuming the other requirements for patentability are met, the first inventor to file a patent application generally will be entitled to the patent on an invention regardless of whether another inventor had made the invention earlier. The USPTO recently developed new regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, in particular, the first-to-file provisions, only became effective on March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. The Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business and financial condition.

In addition, patent reform legislation may pass in the future that could lead to additional uncertainties and increased costs surrounding the prosecution, enforcement and defense of our patents and applications. Furthermore, the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit have made, and will likely continue to make, changes in how the patent laws of the United States are interpreted. Similarly, foreign courts have made, and will likely continue to make, changes in how the patent laws in their respective jurisdictions are interpreted. We cannot predict future changes in the interpretation of patent laws or changes to patent laws that might be enacted into law by United States and foreign legislative bodies. Those changes may materially affect our patents or patent applications and our ability to obtain additional patent protection in the future.

***Obtaining and maintaining patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.***

The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. In addition, periodic maintenance fees on issued patents often must be paid to the USPTO and foreign patent agencies over the lifetime of the patent. While an unintentional lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we fail to maintain the patents and patent applications covering our products or procedures, we may not be able to stop a competitor from marketing products that are the same as or similar to our own, which would have a material adverse effect on our business.

***We may not be able to adequately protect our intellectual property rights throughout the world.***

Filing, prosecuting and defending patents on our products in all countries throughout the world would be prohibitively expensive. The requirements for patentability may differ in certain countries, particularly developing countries, and the breadth of patent claims allowed can be inconsistent. In addition, the laws of some foreign countries may not protect our intellectual property rights to the same extent as laws in the United States. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories in which we have patent protection that may not be sufficient to terminate infringing activities.

We do not have patent rights in certain foreign countries in which a market may exist. Moreover, in foreign jurisdictions where we do have patent rights, proceedings to enforce such rights could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly, and our patent applications at risk of not issuing. Additionally, such proceedings could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate, and if we do prevail, the damages or other remedies awarded, if any, may not be commercially meaningful. Thus, we may not be able to stop a competitor from marketing and selling in foreign countries products that are the same as or similar to our products, and our competitive position in the international market would be harmed.

***We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.***

We could in the future be subject to claims that we or our employees have inadvertently or otherwise used or disclosed alleged trade secrets or other proprietary information of former employers or competitors. In addition, many of our executive officers and key employees, as well as our Chairman of the Board, have worked for our major competitors (or companies acquired by these competitors), which include Boston Scientific, Medtronic and Abbott Laboratories (which recently acquired St. Jude Medical). Although we have procedures in place that seek to prevent our employees and consultants from using the intellectual property, proprietary information, know-how or trade secrets of others in their work for us, we may in the future be subject to claims that we caused an employee to

breach the terms of his or her non-competition or non-solicitation agreement, or that we or these individuals have, inadvertently or otherwise, used or disclosed the alleged trade secrets or other proprietary information of a former employer or competitor. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and could be a distraction to management. If our defense to those claims fails, in addition to paying monetary damages, a court could prohibit us from using technologies or features that are essential to our products, if such technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of the former employers. An inability to incorporate technologies or features that are important or essential to our products would have a material adverse effect on our business, and may prevent us from selling our products or from practicing our processes. In addition, we may lose valuable intellectual property rights or personnel. Moreover, any such litigation or the threat thereof may adversely affect our ability to hire employees or contract with independent sales representatives. A loss of key personnel or their work product could hamper or prevent our ability to commercialize our products, which could have an adverse effect on our business, results of operations and financial condition.

***If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.***

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented, declared generic or determined to be infringing on other marks. We may not be able to protect our rights in these trademarks and trade names, which we need in order to build name recognition with potential partners or customers in our markets of interest. In addition, third parties have registered trademarks similar and identical to our trademarks in foreign jurisdictions, and may in the future file for registration of such trademarks. If they succeed in registering or developing common law rights in such trademarks, and if we were not successful in challenging such third-party rights, we may not be able to use these trademarks to market our products in those countries. In any case, if we are unable to establish name recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected.

***If we are unable to protect the confidentiality of our trade secrets, our business and competitive position may be harmed.***

In addition to patent and trademark protection, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect our trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our consultants and vendors, or our former or current employees. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, however, any of these parties may breach the agreements and disclose our trade secrets and other unpatented or unregistered proprietary information, and once disclosed, we are likely to lose trade secret protection. Monitoring unauthorized uses and disclosures of our intellectual property is difficult, and we do not know whether the steps we have taken to protect our intellectual property will be effective. In addition, we may not be able to obtain adequate remedies for any such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to enforce trade secret protection.

Further, our competitors may independently develop knowledge, methods and know-how similar, equivalent, or superior to our proprietary technology. Competitors could purchase our products and attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. In addition, our key employees, consultants, suppliers or other individuals with access to our proprietary technology and know-how may incorporate that technology and know-how into projects and inventions developed independently or with third parties. As a result, disputes may arise regarding the ownership of the proprietary rights to such technology or know-how, and any such dispute may not be resolved in our favor. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us and our competitive position could be adversely affected. If our intellectual property is not adequately protected so as to protect our market against competitors' products and methods, our competitive position could be adversely affected, as could our business.

## **Risks Related to our Financial and Operating Results**

*We may choose, or need, to obtain additional funds in the future, and these funds may not be available on acceptable terms or at all.*

Our operations have consumed substantial amounts of cash since inception, and we anticipate our expenses will increase as we continue to build a commercial sales force in the United States, investigate the use of our HF10 therapy for the treatment of other chronic pain conditions, continue to otherwise grow our business and continue to operate as a public company. In particular, we believe that we will continue to expend substantial resources for the foreseeable future on the commercialization of Senza in the United States, as well as the growth of our sales and marketing efforts and sales representative training, seeking additional foreign regulatory approvals, the preparation and submission of regulatory filings and the clinical development of any other product candidates or indications we may choose to pursue. These expenditures will also include costs associated with manufacturing and supply as well as marketing and selling Senza in the United States and elsewhere, and any other future products approved for sale, R&D, conducting preclinical studies and clinical trials and obtaining regulatory approvals.

We believe that our growth will depend, in part, on our ability to fund our commercialization efforts, particularly in the United States, and our efforts to develop Senza and our HF10 therapy for the treatment of additional chronic pain indications and develop technology complementary to our current product. In order to further enhance our R&D efforts, pursue product expansion opportunities or acquire a new business or products that are complementary to our business, we may choose to seek additional funds. If we are unable to raise funds on favorable terms, or at all, the long-term growth of our business may be negatively impacted. As a result, we may be unable to compete effectively. Our cash requirements in the future may be significantly different from our current estimates and depend on many factors, including:

- the costs of commercializing Senza in the United States and elsewhere, including costs associated with product sales, marketing, manufacturing and distribution;
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, including, in particular, the costs of enforcing our patent rights in the action we filed against Boston Scientific and in defending against Boston Scientific's action against us;
- the R&D activities we intend to undertake in order to expand the chronic pain indications and product enhancements that we intend to pursue;
- whether or not we pursue acquisitions or investments in businesses, products or technologies that are complementary to our current business;
- the degree and rate of market acceptance of Senza in the United States and elsewhere;
- changes or fluctuations in our inventory supply needs and forecasts of our supply needs;
- our need to implement additional infrastructure and internal systems;
- our ability to hire additional personnel to support our operations as a public company; and
- the emergence of competing technologies or other adverse market developments.

To finance these activities, we may seek funds through borrowings or through additional rounds of financing, including private or public equity or debt offerings and collaborative arrangements with corporate partners. We may be unable to raise funds on favorable terms, or at all.

The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders. If we borrow additional funds or issue debt securities, these securities could have rights superior to holders of our common stock and the 2021 Notes and could contain covenants that will restrict our operations. We might have to obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to our technologies, product candidates, or products that we otherwise would not relinquish. If we do not obtain additional resources, our ability to capitalize on business opportunities will be limited, we may be unable to compete effectively and the growth of our business will be harmed.

***Our operating results may vary significantly from quarter to quarter, which may negatively impact our stock price in the future.***

Our quarterly revenue and results of operations may fluctuate from quarter to quarter due to, among others, the following reasons:

- physician and payor acceptance of Senza and our HF10 therapy;
- the timing, expense and results of our commercialization efforts in the United States and elsewhere, R&D activities, clinical trials and regulatory approvals;
- fluctuations in our expenses associated with inventory buildup or write-downs from analyzing our inventory for obsolescence or conformity with our product requirements;
- difficulties in collecting receivables related to our sales in the United States;
- fluctuations in the expenses related to pursuing and defending our ongoing lawsuits with Boston Scientific;
- fluctuations in expenses as a result of expanding our commercial operations and operating as a public company;
- the introduction of new products and technologies by our competitors;
- the productivity of our sales representatives;
- supplier, manufacturing or quality problems with our products;
- the timing of stocking orders from our distributors;
- changes in our pricing policies or in the pricing policies of our competitors or suppliers; and
- changes in coverage amounts or government and third-party payors' reimbursement policies.

Because of these and other factors, it is likely that in some future period our operating results will not meet investor expectations or those of public market analysts.

Any unanticipated change in revenues or operating results is likely to cause our stock price to fluctuate. New information may cause investors and analysts to revalue our business, which could cause a decline in our stock price.

***We are required to maintain high levels of inventory, which could consume a significant amount of our resources, reduce our cash flows and lead to inventory impairment charges.***

As a result of the need to maintain substantial levels of inventory, we are subject to the risk of inventory obsolescence and expiration, which may lead to inventory impairment charges. Our products consist of a substantial number of individual components. In order to market and sell Senza effectively, we often must maintain high levels of inventory. In particular, as we continue our commercial launch of Senza in the United States, we intend to substantially increase our levels of inventory in order to meet our estimated demand and, as a result, incur significant expenditures associated with such increases in our inventory. The manufacturing process requires lengthy lead times, during which components of our products may become obsolete, and we may over- or under-estimate the amount needed of a given component, in which case we may expend extra resources or be constrained in the amount of end product that we can produce. As compared to direct manufacturers, our dependence on third-party manufacturers exposes us to greater lead times increasing our risk of inventory obsolescence comparatively. Furthermore, our products have a limited shelf life due to sterilization requirements, and part or all of a given product or component may expire and its value would become impaired and we would be required to record an impairment charge. In addition, we have also experienced inventory write-downs as a result of inventory that did not meet our product requirements. If our estimates of required inventory are too high, we may be exposed to further inventory obsolescence risk. In the event that a substantial portion of our inventory becomes obsolete or expires, or in the event we experience a supply chain imbalance as described above, it could have a material adverse effect on

our earnings and cash flows due to the resulting costs associated with the inventory impairment charges and costs required to replace such inventory.

***The seasonality of our business creates variance in our quarterly revenue, which makes it difficult to compare or forecast our financial results.***

Our revenue fluctuates on a seasonal basis, which affects the comparability of our results between periods. For example, in certain years we have historically experienced lower sales in the summer months and around the holidays, primarily due to the buying patterns and implant volumes of our distributors, hospitals and clinics. These seasonal variations are difficult to predict accurately, may vary amongst different markets, and at times may be entirely unpredictable, which introduce additional risk into our business as we rely upon forecasts of customer demand to build inventory in advance of anticipated sales. In addition, we believe our limited history commercializing our products has, in part, made our seasonal patterns more difficult to discern, making it more difficult to predict future seasonal patterns.

***We are subject to risks associated with currency fluctuations, and changes in foreign currency exchange rates could impact our results of operations.***

A portion of our business is located outside the United States and, as a result, we generate revenue and incur expenses denominated in currencies other than the U.S. dollar, a majority of which is denominated in Euros and Australian Dollars. In the first half of 2015, and all of 2014 and 2013, nearly all of our total revenue was denominated in foreign currencies. As a result, changes in the exchange rates between such foreign currencies and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. Fluctuations in foreign currency exchange rates also impact the reporting of our receivables and payables in non-U.S. currencies. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our common stock and the value of the 2021 Notes could be adversely affected.

In the future, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations.

***Our ability to use our net operating losses and tax credits to offset future taxable income and taxes may be subject to certain limitations.***

In general, under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its pre-change net operating loss (NOL) carryforwards and other tax attributes, such as research and development tax credits to offset future taxable income and taxes.

As a result of our June 2015 underwritten public offering, we have experienced a Section 382 “ownership change.” We currently believe that this “ownership change” will not inhibit our ability to utilize our NOLs. However, as a result of any potential future “ownership changes,” or if we do not generate sufficient taxable income in the future, we may not be able to utilize a material portion of our NOLs and tax credits, even if we achieve profitability. If we are limited in our ability to use our NOLs and tax credits in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs and tax credits. This could materially and adversely affect our results of operations. As of December 31, 2016, we had federal and state NOLs of \$224.7 million and \$77.3 million, respectively, available to offset future taxable income due to prior period losses, which if not utilized will begin to expire in 2026 for federal purposes and begin to expire in 2017 for state purposes.



## **Risks Related to Regulation of our Industry**

***Senza is subject to extensive governmental regulation, and our failure to comply with applicable requirements could cause our business to suffer.***

The medical device industry is regulated extensively by governmental authorities, principally the FDA and corresponding state and foreign regulatory agencies and authorities, such as the EU legislative bodies and the EEA Member State Competent Authorities. The FDA and other U.S., EEA and foreign governmental agencies and authorities regulate and oversee, among other things, with respect to medical devices:

- design, development and manufacturing;
- testing, labeling, content and language of instructions for use and storage;
- clinical trials;
- product safety;
- marketing, sales and distribution;
- pre-market regulatory clearance and approval;
- conformity assessment procedures;
- record-keeping procedures;
- advertising and promotion;
- recalls and other field safety corrective actions;
- post-market surveillance, including reporting of deaths or serious injuries and malfunctions that, if they were to recur, could lead to death or serious injury;
- post-market studies; and
- product import and export.

The laws and regulations to which we are subject are complex and have tended to become more stringent over time. Legislative or regulatory changes could result in restrictions on our ability to carry on or expand our operations, higher than anticipated costs or lower than anticipated sales.

Our failure to comply with U.S. federal and state regulations or EEA or other foreign regulations applicable in the countries where we operate could lead to the issuance of warning letters or untitled letters, the imposition of injunctions, suspensions or loss of regulatory clearance or approvals, product recalls, termination of distribution, product seizures or civil penalties. In the most extreme cases, criminal sanctions or closure of our manufacturing facilities are possible. If any of these risks materialize, our business would be adversely affected.

***Our business is subject to extensive governmental regulation that could make it more expensive and time consuming for us to expand the potential indications for which Senza is approved or introduce new or improved products.***

Our products must comply with regulatory requirements imposed by the FDA in the United States and similar agencies in foreign jurisdictions. These requirements involve lengthy and detailed laboratory and clinical testing procedures, sampling activities, extensive agency review processes, and other costly and time-consuming procedures. It often takes several years to satisfy these requirements, depending on the complexity and novelty of the product. We also are subject to numerous additional licensing and regulatory requirements relating to safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. Some of the most important requirements we must comply with include:

- FFDCAs and the FDA's implementing regulations (Title 21 CFR);
- European Union CE mark requirements;

- Medical Device Quality Management System Requirements (ISO 13485:2003);
- Occupational Safety and Health Administration requirements; and
- California Department of Health Services requirements.

Government regulation may impede our ability to conduct clinical studies and to manufacture and sell our existing and future products. Government regulation also could delay our marketing of new products for a considerable period of time and impose costly procedures on our activities. Foreign regulatory agencies may not approve Senza and any of our future products on a timely basis, if at all. Any delay in obtaining, or failure to obtain, such approvals could negatively impact our marketing of any future products and reduce our product revenues.

Our products remain subject to strict regulatory controls on manufacturing, marketing and use. We may be forced to modify or recall a product after release in response to regulatory action or unanticipated difficulties encountered in general use. Any such action could have a material effect on the reputation of our products and on our business and financial position.

Further, regulations may change, and any additional regulation could limit or restrict our ability to use any of our technologies, which could harm our business. For example, in December 2016, the 21st Century Cures Act, or Cures Act, was signed into law. The Cures Act, among other things, is intended to modernize the regulation of medical devices and spur innovation, but its ultimate implementation remains unclear. We could also be subject to new international, federal, state or local regulations that could affect our R&D programs and harm our business in unforeseen ways. If this happens, we may have to incur significant costs to comply with such laws and regulations, which will harm our results of operations.

We also cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative or executive action, either in the United States or abroad. For example, certain policies of the Trump administration may impact our business and industry. Namely, the Trump administration has taken several executive actions, including the issuance of a number of Executive Orders, that could impose significant burdens on, or otherwise materially delay, the FDA's ability to engage in routine regulatory and oversight activities such as implementing statutes through rulemaking, issuance of guidance, and review and approval of marketing applications. Notably, on January 23, 2017, President Trump ordered a hiring freeze for all executive departments and agencies, including the FDA, which prohibits the FDA from filling employee vacancies or creating new positions. Under the terms of the order, the freeze will remain in effect until implementation of a plan to be recommended by the Director for the Office of Management and Budget, or OMB, in consultation with the Director of the Office of Personnel Management, to reduce the size of the federal workforce through attrition. An understaffed FDA could result in delays in FDA's responsiveness or in its ability to review submissions or applications, issue regulations or guidance or implement or enforce regulatory requirements in a timely fashion or at all. Moreover, on January 30, 2017, President Trump issued an Executive Order, applicable to all executive agencies, including the FDA, that requires that for each notice of proposed rulemaking or final regulation to be issued in fiscal year 2017, the agency shall identify at least two existing regulations to be repealed, unless prohibited by law. These requirements are referred to as the "two-for-one" provisions. This Executive Order includes a budget neutrality provision that requires the total incremental cost of all new regulations in the 2017 fiscal year, including repealed regulations, to be no greater than zero, except in limited circumstances. For fiscal years 2018 and beyond, the Executive Order requires agencies to identify regulations to offset any incremental cost of a new regulation and approximate the total costs or savings associated with each new regulation or repealed regulation. In interim guidance issued by the Office of Information and Regulatory Affairs within OMB on February 2, 2017, the administration indicates that the "two-for-one" provisions may apply not only to agency regulations, but also to significant agency guidance documents. It is difficult to predict how these requirement will be implemented, and the extent to which they will impact the FDA's ability to exercise its regulatory authority. If these executive actions impose constraints on FDA's ability to engage in oversight and implementation activities in the normal course, our business may be negatively impacted.

In September 2012, the European Commission published proposals for the revision of the EU regulatory framework for medical devices. The proposals would replace the Medical Devices Directive and the Active Implantable Medical Devices Directive with two new regulations: the Medical Devices Regulation and the In-Vitro

Diagnostic Medical Devices Regulation. Unlike directives, which must be implemented into the national laws of the EEA member States, the regulations would be directly applicable, i.e., without the need for adoption of EEA member State laws implementing them, in all EEA member States and are intended to eliminate current differences in the regulation of medical devices among EEA member States.

The Medical Devices Regulation and the In-Vitro Diagnostic Medical Devices Regulation are expected to be adopted in the first quarter of 2017. However, the Medical Devices Regulation, which is the regulation directly applicable to our products, will only become applicable three years after publication in the Office Journal of the European Union. Once in effect, the Medical Devices Regulation will, among other things:

- strengthen the rules on placing devices on the market and reinforce surveillance once they are available;
- establish explicit provisions on manufacturers' responsibilities for the follow-up of the quality, performance and safety of devices placed on the market;
- improve the traceability of medical devices throughout the supply chain to the end-user or patient through a unique identification number;
- set up a central database to provide patients, healthcare professionals and the public with comprehensive information on products available in the EU;
- strengthened rules for the assessment of certain high-risk devices, such as implants, which may have to undergo an additional check by experts before they are placed on the market.

These modifications may have an impact on the way we conduct our business in the EEA.

***Senza is subject to extensive governmental regulation in foreign jurisdictions, such as Europe, and our failure to comply with applicable requirements could cause our business to suffer.***

In the EEA, Senza must comply with the Essential Requirements laid down in Annex I to the EU Active Implantable Medical Devices Directive. Compliance with these requirements is a prerequisite to be able to affix the CE mark to Senza, without which Senza cannot be marketed or sold in the EEA. To demonstrate compliance with the Essential Requirements and obtain the right to affix the CE Mark to Senza, we must undergo a conformity assessment procedure, which varies according to the type of medical device and its classification. Except for low risk medical devices (Class I with no measuring function and which are not sterile), where the manufacturer can issue an EC Declaration of Conformity based on a self-assessment of the conformity of its products with the Essential Requirements, a conformity assessment procedure requires the intervention of a Notified Body, which is an organization designated by a competent authority of an EEA country to conduct conformity assessments. Depending on the relevant conformity assessment procedure, the Notified Body would audit and examine the Technical File and the quality system for the manufacture, design and final inspection of our devices. The Notified Body issues a CE Certificate of Conformity following successful completion of a conformity assessment procedure conducted in relation to the medical device and its manufacturer and their conformity with the Essential Requirements. This Certificate entitles the manufacturer to affix the CE mark to its medical devices after having prepared and signed a related EC Declaration of Conformity.

As a general rule, demonstration of conformity of medical devices and their manufacturers with the Essential Requirements must be based, among other things, on the evaluation of clinical data supporting the safety and performance of the products during normal conditions of use. Specifically, a manufacturer must demonstrate that the device achieves its intended performance during normal conditions of use and that the known and foreseeable risks, and any adverse events, are minimized and acceptable when weighed against the benefits of its intended performance, and that any claims made about the performance and safety of the device (e.g., product labeling and instructions for use) are supported by suitable evidence. This assessment must be based on clinical data, which can be obtained from (1) clinical studies conducted on the devices being assessed, (2) scientific literature from similar devices whose equivalence with the assessed device can be demonstrated or (3) both clinical studies and scientific literature. With respect to active implantable medical devices or Class III devices, the manufacturer must conduct clinical studies to obtain the required clinical data, unless reliance on existing clinical data from equivalent devices can be justified. The conduct of clinical studies in the EEA is governed by detailed regulatory obligations. These may include the requirement of prior authorization by the competent authorities of the country in which the study

takes place and the requirement to obtain a positive opinion from a competent Ethics Committee. This process can be expensive and time-consuming.

In order to continue to sell Senza in Europe, we must maintain our CE Mark and continue to comply with certain EU Directives. Our failure to continue to comply with applicable foreign regulatory requirements, including those administered by authorities of the EEA countries, could result in enforcement actions against us, including refusal, suspension or withdrawal of our CE Certificates of Conformity by the BSI, which could impair our ability to market products in the EEA in the future.

***The misuse or off-label use of our product may harm our image in the marketplace, result in injuries that lead to product liability suits, which could be costly to our business, or result in costly investigations and sanctions from the FDA and other regulatory bodies if we are deemed to have engaged in off-label promotion.***

Senza has been approved for marketing in the United States, CE Marked in the EEA and approved by the TGA in Australia for specific treatments and anatomies. We may only promote or market the Senza SCS system for its specifically approved indications as described on the approved label. We train our marketing and sales force against promoting our products for uses outside of the approved indications for use, known as “off-label uses.” We cannot, however, prevent a physician from using our product off-label, when in the physician’s independent professional medical judgment he or she deems the use of the product in the non-approved indication as appropriate. There may be increased risk of injury to patients if physicians attempt to use our product off-label. Furthermore, the use of our product for indications other than those approved by the applicable regulatory body may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients.

Physicians may also misuse our product or use improper techniques if they are not adequately trained, potentially leading to injury and an increased risk of product liability. If our product is misused or used with improper technique, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management’s attention from our core business, be expensive to defend, and result in sizable damage awards against us that may not be covered by insurance. In addition, if the FDA determines that our promotional materials, training or physician support activities constitute promotion of an off-label use, it could request that we modify our training, promotional materials or physician support activities or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our business activities to constitute promotion of an off-label use, which could result in significant penalties, including, but not limited to, criminal, civil and/or administrative penalties, damages, fines, disgorgement, exclusion from participation in government healthcare programs, and the curtailment of our operations. Further, regulators or legislators may also enhance the enforcement of, and attempt to curtail, any off-label use by physicians of medical devices in the future. Any of these events could significantly harm our business and results of operations and cause our stock price to decline.

Further, the advertising and promotion of our products is subject to EEA Member States laws implementing Directive 93/42/EEC concerning Medical Devices (the EU Medical Devices Directive), Directive 2006/114/EC concerning misleading and comparative advertising, and Directive 2005/29/EC on unfair commercial practices, as well as other EEA Member State legislation governing the advertising and promotion of medical devices. EEA Member State legislation may also restrict or impose limitations on our ability to advertise our products directly to the general public. In addition, voluntary EU and national Codes of Conduct provide guidelines on the advertising and promotion of our products and may impose limitations on our promotional activities with healthcare professionals.

***Senza may in the future be subject to notifications, recalls, or voluntary market withdrawals that could harm our reputation, business and financial results.***

The FDA, EEA Competent Authorities and similar foreign governmental authorities have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture that could affect patient safety. In the case of the FDA, the authority to require a recall must be based on an FDA finding that there is a reasonable probability that the device would cause serious adverse health consequences or death. Manufacturers may, under their own initiative, conduct a product notification or recall to

inform physicians of changes to instructions for use, or if a deficiency in a device is found or suspected. A government-mandated recall or voluntary recall by us or one of our distributors could occur as a result of component failures, manufacturing errors, design or labeling defects or other issues. Recalls, which include certain notifications and corrections as well as removals, of Senza could divert managerial and financial resources and could have an adverse effect on our financial condition, harm our reputation with customers, and reduce our ability to achieve expected revenue.

In addition, the manufacturing of our products is subject to extensive post-market regulation by the FDA and foreign regulatory authorities, and any failure by us or our contract manufacturers or suppliers to comply with regulatory requirements could result in recalls, facility closures, and other penalties. We and our suppliers and contract manufacturers are subject to the QSR, and comparable foreign regulations which govern the methods used in, and the facilities and controls used for, the design, manufacture, quality assurance, labeling, packaging, sterilization, storage, shipping, and servicing of medical devices. These regulations are enforced through periodic inspections of manufacturing facilities. Any manufacturing issues at our or our suppliers' or contract manufacturers' facilities, including failure to comply with regulatory requirements, may result in warning or untitled letters, manufacturing restrictions, voluntary or mandatory recalls or corrections, fines, withdrawals of regulatory clearances or approvals, product seizures, injunctions, or the imposition of civil or criminal penalties, which would adversely affect our business results and prospects.

***We are required to report certain malfunctions, deaths, and serious injuries associated with our products, which can result in voluntary corrective actions or agency enforcement actions.***

Under the FDA medical device reporting regulations, medical device manufacturers are required to submit information to the FDA when they receive a report or become aware that a device has or may have caused or contributed to a death or serious injury or has or may have a malfunction that would likely cause or contribute to death or serious injury if the malfunction were to recur. All manufacturers placing medical devices on the market in the EEA are legally bound to report incidents involving devices they produce or sell to the regulatory agency, or competent authority, in whose jurisdiction the incident occurred. Under the EU Medical Devices Directive (Directive 93/42/EEC), an incident is defined as any malfunction or deterioration in the characteristics and/or performance of a device, as well as any inadequacy in the labeling or the instructions for use which, directly or indirectly, might lead to or might have led to the death of a patient, or user or of other persons or to a serious deterioration in their state of health.

Malfunction of our products could result in future voluntary corrective actions, such as recalls, including corrections, or customer notifications, or agency action, such as inspection or enforcement actions. If malfunctions do occur, we may be unable to correct the malfunctions adequately or prevent further malfunctions, in which case we may need to cease manufacture and distribution of the affected products, initiate voluntary recalls, and redesign the products. Regulatory authorities may also take actions against us, such as ordering recalls, imposing fines, or seizing the affected products. Any corrective action, whether voluntary or involuntary, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

***A recall of our products, either voluntarily or at the direction of the FDA, an EEA Competent Authority or another governmental authority, or the discovery of serious safety issues with our products, could have a significant adverse impact on us.***

The FDA and similar foreign governmental authorities such as the Competent Authorities of the EEA countries have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture or in the event that a product poses an unacceptable risk to health. Manufacturers may, under their own initiative, recall a product if any material deficiency in a device is found. A government-mandated or voluntary recall by us or one of our distributors could occur as a result of an unacceptable risk to health, component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any of our products would divert managerial and financial resources and have an adverse effect on our reputation, results of operations and financial condition, which could impair our ability to produce our products in a cost-effective and timely manner in order to meet our customers' demands. We may also be required to bear other costs or take other actions that may have a negative impact on our future sales and our ability to generate profits.

***We may be subject to federal, state and foreign healthcare laws and regulations, and a finding of failure to comply with such laws and regulations could have a material adverse effect on our business.***

We are subject to healthcare fraud and abuse regulation and enforcement by federal, state and foreign governments, which could significantly impact our business. In the United States, the laws that may affect our ability to operate include, but are not limited to:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons and entities from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in cash or in kind, in exchange for or to induce either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service for which payment may be made, in whole or in part, under federal healthcare programs such as Medicare and Medicaid. A person or entity does not need to have actual knowledge of this statute or specific intent to violate it;
- federal civil and criminal false claims laws and civil monetary penalty laws, including civil whistleblower or qui tam actions, that prohibit, among other things, knowingly presenting, or causing to be presented, claims for payment or approval to the federal government that are false or fraudulent, knowingly making a false statement material to an obligation to pay or transmit money or property to the federal government or knowingly concealing or knowingly and improperly avoiding or decreasing an obligation to pay or transmit money or property to the federal government;
- HIPAA, which created federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters. A person or entity does not need to have actual knowledge of these statutes or specific intent to violate them;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, and their respective implementing regulations, which impose requirements on certain covered healthcare providers, health plans and healthcare clearinghouses as well as their business associates that perform services for them that involve individually identifiable health information, relating to the privacy, security and transmission of individually identifiable health information without appropriate authorization, including mandatory contractual terms as well as directly applicable privacy and security standards and requirements;
- the federal physician sunshine requirements under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, collectively, the ACA, which require certain manufacturers of drugs, devices, biologics, and medical supplies to report annually to the U.S. Department of Health and Human Services information related to payments and other transfers of value to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and ownership and investment interests held by physicians and their immediate family members;
- state and foreign law equivalents of each of the above federal laws, such as state anti-kickback and false claims laws that may apply to items or services reimbursed by any third-party payor, including commercial insurers; state laws that require device companies to comply with the industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require device manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state and foreign laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA.

The scope and enforcement of each of these laws is uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. Federal and state enforcement bodies have recently increased their scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Responding to investigations can be time- and resource-consuming and can divert management's attention from the business. Additionally, as a result of these investigations, healthcare providers and entities may have to agree to additional onerous compliance and reporting requirements as part of a consent decree or corporate

integrity agreement. Any such investigation or settlement could increase our costs or otherwise have an adverse effect on our business.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us now or in the future, we may be subject to penalties, including civil and criminal penalties, damages, fines, disgorgement, exclusion from governmental health care programs, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results.

***Healthcare legislative reform measures may have a material adverse effect on us.***

In March 2010, the ACA was signed into law, which included, among other things, a deductible 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions, effective January 1, 2013. Subsequently, a two-year moratorium was implemented effective January 1, 2016, such that medical device sales in 2016 and 2017 are exempt from the medical device excise tax. Unless there is further legislative action, the tax will be automatically reinstated for sales of medical devices on or after January 1, 2018. If it were to be reinstated, this excise tax would result in a significant increase in the tax burden on our industry, and if any efforts we undertake to offset the excise tax are unsuccessful as we begin to sell the product in the United States, the increased tax burden could have an adverse effect on our results of operations and cash flows. Other elements of the ACA, including comparative effectiveness research, an independent payment advisory board and payment system reforms, including shared savings pilots and other provisions, may significantly affect the payment for, and the availability of, healthcare services and result in fundamental changes to federal healthcare reimbursement programs, any of which may materially affect numerous aspects of our business.

In addition, other legislative changes have been proposed and adopted in the United States since the ACA was enacted. These changes included an aggregate reduction in Medicare payments to providers of up to 2% per fiscal year, which went into effect on April 1, 2013 and will remain in effect through 2025 unless additional Congressional action is taken. On January 2, 2013, the American Taxpayer Relief Act of 2012, was signed into law which, among other things, further reduced Medicare payments to certain providers, including hospitals. The Medicare Access and CHIP Reauthorization Act of 2015, enacted on April 16, 2015 (MACRA), repealed the formula by which Medicare made annual payment adjustments to physicians and replaced the former formula with fixed annual updates and a new system of incentive payments scheduled to begin in 2019 that are based on various performance measures and physicians' participation in alternative payment models such as accountable care organizations.

There have been judicial and Congressional challenges to certain aspects of the ACA, and we expect there will be additional challenges and amendments to the ACA in the future. For instance, on January 20, 2017, President Trump signed an Executive Order stating it is his Administration's policy to seek prompt repeal of the ACA and directing federal agencies with authorities and responsibilities under the ACA to waive, defer, grant exemptions from, or delay the implementation of any provision of the ACA that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. Congress also could consider subsequent legislation to replace elements of the ACA that may be repealed. At this time, the full effect that the ACA, the Executive Order and any subsequent legislation would have on our business remains unclear. Any new limitations on, changes to, or uncertainty with respect to the ability of individuals to enroll in governmental reimbursement programs or other third-party payor insurance plans could impact demand for our product.

We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our products or additional pricing pressures.

***Our future success depends on our ability to develop, receive regulatory clearance or approval for, additional chronic pain indications for Senza and introduce new products or product enhancements that will be accepted by the market in a timely manner.***

It is important to our business that we build a pipeline of product offerings for treatment of chronic pain. As such, our success will depend in part on our ability to expand the chronic pain indications for which Senza may be

used and/or develop and introduce new products. However, we may not be able to successfully develop and obtain regulatory clearance or approval for expanded indications or product enhancements, or new products, or these products may not be accepted by physicians or the payors who financially support many of the procedures performed with our products.

The success of any new product offering or enhancement to an existing product will depend on a number of factors, including our ability to:

- identify and anticipate physician and patient needs properly;
- develop and introduce new products or product enhancements in a timely manner;
- avoid infringing upon the intellectual property rights of third parties;
- demonstrate, if required, the safety and efficacy of new products with data from preclinical and clinical studies;
- obtain the necessary regulatory clearances or approvals for new products or product enhancements;
- comply fully with FDA and foreign regulations on marketing of new devices or modified products;
- provide adequate training to potential users of our products; and
- receive adequate coverage and reimbursement for procedures performed with our products.

If we do not develop new products or product enhancements in time to meet market demand or if there is insufficient demand for these products or enhancements, or if our competitors introduce new products with functionalities that are superior to ours, our results of operations will suffer.

### **Risks Related to Our Securities**

***Our stock price may be volatile and as a result our stockholders may not be able to resell shares of our common stock at or above the price they paid and such volatility may also adversely impact the value of the 2021 Notes.***

The trading price of our common stock could be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include those discussed in this “Risk Factors” section of this Annual Report and others such as:

- delays or setbacks in the commercialization of Senza or the expansion of indications for which Senza is approved;
- announcements of new products by us or our competitors;
- achievement of expected product sales and profitability;
- manufacture, supply or distribution shortages;
- fluctuations in our expenses associated with inventory buildup or write-downs from analyzing our inventory for obsolescence or conformity with our product requirements;
- adverse actions taken by regulatory agencies with respect to our clinical trials, manufacturing supply chain or sales and marketing activities;
- our operating results;
- results from, or any delays in, clinical trial programs relating to our product candidates;
- changes or developments in laws or regulations applicable to our products;
- any adverse changes in our relationship with any manufacturers or suppliers;
- the success of our efforts to acquire or develop additional products;



- any intellectual property infringement actions in which we may become involved, including our pending lawsuits with Boston Scientific;
- announcements concerning our competitors or the medical device industry in general;
- actual or anticipated fluctuations in our operating results;
- FDA or other U.S. or foreign regulatory actions affecting us or our industry or other healthcare reform measures in the United States;
- changes in financial estimates or recommendations by securities analysts;
- trading volume of our common stock;
- trading activity in our common stock by the option counterparties to our convertible note hedge transactions to unwind or modify their hedge positions;
- sales of our common stock by us, our executive officers and directors or our stockholders in the future;
- general economic and market conditions and overall fluctuations in the United States equity markets; and
- the loss of any of our key scientific or management personnel.

Because the 2021 Notes are convertible into shares of common stock, volatility or depressed market prices of our common stock could have a similar effect on the value of the 2021 Notes. Holders who receive shares of our common stock upon conversion of the 2021 Notes will also be subject to the risk of volatility and depressed market prices of our common stock. Similarly, the liquidity of the trading market in the 2021 Notes and the market price quoted for the 2021 Notes, may be adversely affected by changes in the overall market for this type of security and by changes in our financial performance or prospects or in the prospects for companies in our industry generally.

In addition, the stock markets in general, and the markets for medical device stocks in particular, have experienced volatility that may have been unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our common stock and the value of the 2021 Notes. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business, which could seriously harm our financial position. Any adverse determination in litigation could also subject us to significant liabilities.

***Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.***

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the 2021 Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

***Recent and future regulatory actions and other events may adversely affect the value and liquidity of the 2021 Notes.***

We expect that many investors in, and potential purchasers of, the 2021 Notes will employ, or seek to employ, a convertible arbitrage strategy with respect to the 2021 Notes. Investors would typically implement such a strategy by selling short the common stock underlying the 2021 Notes and dynamically adjusting their short position while

continuing to hold the 2021 Notes. Investors may also implement this type of strategy by entering into swaps on our common stock in lieu of or in addition to short selling the common stock.

The SEC and other regulatory and self-regulatory authorities have implemented various rules and taken certain actions, and may in the future adopt additional rules and take other actions, that may impact those engaging in short selling activity involving equity securities (including our common stock). Such rules and actions include Rule 201 of SEC Regulation SHO, the adoption by the Financial Industry Regulatory Authority, Inc. and the national securities exchanges of a “Limit Up-Limit Down” program, the imposition of market-wide circuit breakers that halt trading of securities for certain periods following specific market declines, and the implementation of certain regulatory reforms required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). Any governmental or regulatory action that restricts the ability of investors in, or potential purchasers of, the 2021 Notes to effect short sales of our common stock, borrow our common stock or enter into swaps on our common stock could adversely affect the value and the liquidity of the 2021 Notes.

***If securities or industry analysts issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.***

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issues an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our clinical trials and operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***We incur significantly increased costs and devote substantial management time as a result of operating as a public company.***

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Exchange Act, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), and the Dodd-Frank Act, as well as rules and regulations subsequently implemented by the SEC and the NYSE, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. We expect that compliance with these requirements will increase our legal and financial compliance costs and will make some activities more time consuming and costly.

In addition, our management and other personnel divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, which has increased now that we are no longer an emerging growth company under the Jumpstart Our Business Startups Act of 2012 (the JOBS Act). We continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. We cannot predict or estimate the amount of additional costs we will incur in order to remain compliant with our public company reporting requirements or the timing of such costs. Additional compensation costs and any future equity awards will increase our compensation expense, which would increase our general and administrative expense and could adversely affect our profitability.

***If we are unable to maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock and the value of the 2021 Notes could be adversely affected.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting and provide a management report on internal control over financial reporting. The Sarbanes-Oxley Act also requires that our internal control over financial reporting be attested to by our independent registered public accounting firm, now that we are no longer an “emerging growth company,” as defined by the JOBS Act.

If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. The process of designing and implementing the internal control over financial reporting required to comply with this obligation is time consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal control over financial reporting are effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock and the value of the 2021 Notes could be adversely affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

***The accounting method for convertible debt securities that may be settled in cash, such as the 2021 Notes, could have a material effect on our reported financial results.***

In May 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options (ASC 470-20). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the 2021 Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The effect of ASC 470-20 on the accounting for the 2021 Notes is that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on our consolidated balance sheet, and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the 2021 Notes. As a result, we are required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the 2021 Notes to their face amount over the term of the 2021 Notes. We will report lower net income in our financial results because ASC 470-20 will require interest to include both the current period's amortization of the debt discount and the instrument's non-convertible interest rate, which could adversely affect our reported or future financial results, the trading price of our common stock and the value of the 2021 Notes.

In addition, under certain circumstances, convertible debt instruments (such as the 2021 Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the 2021 Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the 2021 Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the 2021 Notes, then our diluted earnings per share would be adversely affected.

***If we sell shares of our common stock in future financings, stockholders may experience immediate dilution and, as a result, our stock price and the value of the 2021 Notes may decline.***

We may from time to time issue additional shares of common stock at a discount from the current trading price of our common stock. As a result, our stockholders would experience immediate dilution upon the purchase of any shares of our common stock sold at such discount. In addition, as opportunities present themselves, we may enter into financing or similar arrangements in the future, including the issuance of debt securities, preferred stock or common stock. If we issue common stock or securities convertible into common stock, our common stockholders would experience additional dilution and, as a result, our stock price and the value of the 2021 Notes may decline.

***Sales of a substantial number of shares of our common stock in the public market could cause our stock price and the value of the 2021 Notes to fall.***

If our existing stockholders sell, or indicate an intention to sell, substantial amounts of our common stock in the public market after the lapse of legal restrictions on resale, the trading price of our common stock and the value

of the 2021 Notes could decline. As of December 31, 2016, we had outstanding a total of approximately 28.9 million shares of common stock and approximately 6.0 million shares of common stock that are either subject to outstanding options or reserved for future issuance under our equity incentive plans will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, and Rule 144 and Rule 701 under the Securities Act. If these additional shares of common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common stock and the value of the 2021 Notes could decline.

The holders of up to approximately 1.4 million shares of our outstanding common stock as of December 31, 2016 were entitled to rights with respect to the registration of their shares under the Securities Act. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares purchased by affiliates. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock and could cause the value of the 2021 Notes to decline.

***Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.***

As of December 31, 2016 our executive officers, directors, holders of 5% or more of our capital stock and their respective affiliates held approximately 29% of our outstanding voting stock. These stockholders will have the ability to influence us through this ownership position, and may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that our stockholders may feel are in their best interest.

***Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable and may lead to entrenchment of management.***

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could significantly reduce the value of our shares to a potential acquirer or delay or prevent changes in control or changes in our management without the consent of our board of directors. The provisions in our charter documents include the following:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our board of directors to elect a director to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors;
- the required approval of at least 66 2/3% of the shares entitled to vote to remove a director for cause, and the prohibition on removal of directors without cause;
- the ability of our board of directors to authorize the issuance of shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the ability of our board of directors to alter our bylaws without obtaining stockholder approval;
- the required approval of at least 66 2/3% of the shares entitled to vote at an election of directors to adopt, amend or repeal our bylaws or repeal the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;

- the requirement that a special meeting of stockholders may be called only by the board of directors, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

In addition, these provisions would apply even if we were to receive an offer that some stockholders may consider beneficial.

We are also subject to the anti-takeover provisions contained in Section 203 of the Delaware General Corporation Law. Under Section 203, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other exceptions, the board of directors has approved the transaction. The repurchase right under the 2021 Notes in connection with a fundamental change and any increase in the conversion rate in connection with a make-whole fundamental change could also discourage a potential acquirer.

***Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.***

Our amended and restated certificate of incorporation and amended and restated bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law.

In addition, as permitted by Section 145 of the Delaware General Corporation Law, our amended and restated bylaws and our indemnification agreements that we have entered into with our directors and officers provide that:

- we will indemnify our directors and officers for serving us in those capacities or for serving other business enterprises at our request, to the fullest extent permitted by Delaware law. Delaware law provides that a corporation may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the registrant and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful;
- we may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law;
- we are required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification;
- we will not be obligated pursuant to our amended and restated bylaws to indemnify a person with respect to proceedings initiated by that person against us or our other indemnitees, except with respect to proceedings authorized by our board of directors or brought to enforce a right to indemnification;
- the rights conferred in our amended and restated bylaws are not exclusive, and we are authorized to enter into indemnification agreements with our directors, officers, employees and agents and to obtain insurance to indemnify such persons; and
- we may not retroactively amend our amended and restated bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

***We do not currently intend to pay dividends on our common stock, and, consequently, our stockholders' ability to achieve a return on their investment will depend on appreciation in the price of our common stock.***

We do not currently intend to pay any cash dividends on our common stock for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, our stockholders are not likely

to receive any dividends on our common stock for the foreseeable future. Since we do not intend to pay dividends, our stockholders' ability to receive a return on their investment will depend on any future appreciation in the market value of our common stock. There is no guarantee that our common stock will appreciate or even maintain the price at which our stockholders have purchased it.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

Our corporate headquarters and R&D facilities are located in Redwood City, California, where we lease and currently occupy approximately 50,740 square feet of office and laboratory space. In December 2016, we amended the original lease for our corporate headquarters in order to increase the space we occupy by approximately 49,980 square feet of office space adjacent to our corporate headquarters. Our obligations under the amended lease for the new space will commence upon the earlier of the landlord completing certain improvements or when we commence business operations in the new space. The term of the lease for our corporate headquarters and the new adjacent space lasts for a period of 84 months following the commencement of the term for the additional adjacent space. We believe our current headquarters, together with our additional adjacent space, is sufficient for our current and foreseeable business needs. We also lease office space in Switzerland and a small warehouse space in Menlo Park, California.

For additional information, see Note 5. *Commitments and Contingencies* of Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report.

#### **ITEM 3. LEGAL PROCEEDINGS**

On November 28, 2016, we filed a lawsuit for patent infringement against Boston Scientific Corporation and Boston Scientific Neuromodulation Corporation (collectively, "Boston Scientific"). The lawsuit, filed in the United States District Court for the Northern District of California, asserts that Boston Scientific is infringing our patents covering inventions relating to our Senza system and HF10 therapy. The lawsuit seeks preliminary and permanent injunctive relief against further infringement as well as damages and attorney's fees.

On December 9, 2016, Boston Scientific filed a patent infringement lawsuit alleging our manufacture, use and sale of the Senza system infringes certain of Boston Scientific's patents covering SCS technology related to stimulation leads, rechargeable batteries and telemetry. The lawsuit, filed in the United States District Court for the District of Delaware, seeks unspecified damages and attorney's fees, as well as preliminary and permanent injunctive relief against further infringement.

We are and may from time to time continue to be involved in various legal proceedings of a character normally incident to the ordinary course of our business, including several pending European patent oppositions at the European Patent Office initiated by our competitors Medtronic and Boston Scientific, which we do not deem to be material to our business and consolidated financial statements at this stage.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Price Range of Common Stock

Our common stock has been publicly traded on the NYSE under the symbol "NVRO" since the initial public offering, or IPO, of our common stock on November 6, 2014. Prior to that time, there was no public market for our common stock. The following table sets forth on a per share basis, for the periods indicated, the low and high sale prices of our common stock as reported by the NYSE.

	<u>High</u>	<u>Low</u>
<b><u>Year Ended December 31, 2014</u></b>		
Quarter ended December 31, 2014 (beginning November 6th)	\$ 39.37	\$ 25.00
<b><u>Year Ended December 31, 2015</u></b>		
Quarter ended March 31, 2015	\$ 52.03	\$ 36.26
Quarter ended June 30, 2015	\$ 56.14	\$ 45.02
Quarter ended September 30, 2015	\$ 53.83	\$ 40.75
Quarter ended December 31, 2015	\$ 68.34	\$ 37.09
<b><u>Year Ended December 31, 2016</u></b>		
Quarter ended March 31, 2016	\$ 71.02	\$ 48.34
Quarter ended June 30, 2016	\$ 76.71	\$ 59.77
Quarter ended September 30, 2016	\$ 104.94	\$ 75.78
Quarter ended December 31, 2016	\$ 101.92	\$ 70.41

#### Holder of Record

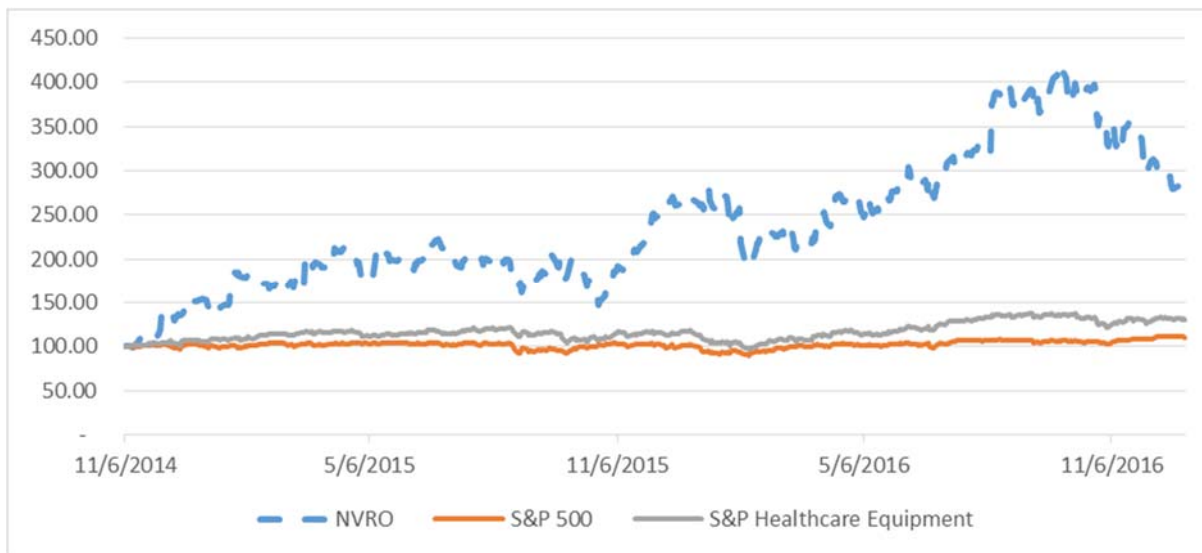
At February 14, 2017, there were approximately 23 stockholders of record of our common stock, and the closing price per share of our common stock was \$93.29. Since many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

#### Dividends

We have never declared or paid cash dividends on our common stock. Because we currently intend to retain all future earnings to finance future growth, we do not anticipate paying any cash dividends in the near future.

### Stock Performance Graph

The following graph illustrates a comparison of the total cumulative stockholder return on our common stock since November 6, 2014, which is the date our common stock first began trading on the NYSE, to two indices: the S&P 500 Composite Index and the S&P Healthcare Equipment Index. The stockholder return shown in the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns. This graph shall not be deemed “soliciting material” or be deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.



<u>\$100 investment in stock or index</u>	November 6, 2014	December 31, 2015	December 31, 2016
Nevro Corp. (NVRO)	\$ 100.00	\$ 268.00	\$ 288.45
S&P 500 (GSPC)	\$ 100.00	\$ 100.63	\$ 110.22
S&P Healthcare Equipment (SPSIHE)	\$ 100.00	\$ 116.37	\$ 130.81

### Recent Sales of Unregistered Securities

None.

### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.



## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data is qualified in its entirety by, and should be read in conjunction with the consolidated financial statements and the notes thereto included in Part II, Item 8 and Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Annual Report. The selected consolidated statements of operations data for each of the five years in the period ended December 31, 2016, and the consolidated balance sheet data as of December 31, 2016, 2015, 2014, 2013 and 2012 have been derived from our audited consolidated financial statements.

	Years Ended December 31,				
	2016	2015	2014	2013	2012
<i>(in thousands, except per share data)</i>					
<b>Selected Consolidated Statements of Operations</b>					
<b>Data:</b>					
Revenue	\$ 228,504	\$ 69,606	\$ 32,573	\$ 23,500	\$ 18,150
Cost of revenue	75,433	28,120	11,278	9,473	7,527
Gross profit	153,071	41,486	21,295	14,027	10,623
Operating expenses:					
Research and development	33,729	21,382	19,824	20,345	15,659
Sales, general and administrative	142,423	82,471	29,777	18,833	14,094
Total operating expenses	176,152	103,853	49,601	39,178	29,753
Loss from operations	(23,081)	(62,367)	(28,306)	(25,151)	(19,130)
Interest and other income (expense), net	(5,806)	(3,898)	(1,896)	(501)	325
Loss on extinguishment of debt	(1,268)	—	—	—	—
Loss before income taxes	(30,155)	(66,265)	(30,202)	(25,652)	(18,805)
Provision for income taxes	1,623	1,166	478	362	162
Net loss	<u>\$ (31,778)</u>	<u>\$ (67,431)</u>	<u>\$ (30,680)</u>	<u>\$ (26,014)</u>	<u>\$ (18,967)</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (1.12)</u>	<u>\$ (2.54)</u>	<u>\$ (6.94)</u>	<u>\$ (29.84)</u>	<u>\$ (38.59)</u>
Shares used in computing basic and diluted net loss per common share	<u>28,485,003</u>	<u>26,581,890</u>	<u>4,440,663</u>	<u>876,932</u>	<u>494,066</u>

	Years Ended December 31,				
	2016	2015	2014	2013	2012
<i>(in thousands, except per share data)</i>					
<b>Selected Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 41,406	\$ 87,036	\$ 25,287	\$ 12,409	\$ 5,618
Short-term investments	\$ 234,951	\$ 106,634	\$ 151,521	\$ 44,123	\$ 24,997
Working capital	\$ 378,093	\$ 246,242	\$ 190,327	\$ 66,870	\$ 43,572
Total assets	\$ 430,583	\$ 291,183	\$ 202,496	\$ 75,411	\$ 49,111
Long-term debt	\$ 138,140	\$ 19,740	\$ 19,511	\$ —	\$ —
Total stockholders' equity (deficit)	\$ 249,034	\$ 234,592	\$ 172,070	\$ (85,790)	\$ (61,794)

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report includes "forward-looking statements" within the meaning of the federal securities laws, particularly statements referencing our expectations relating to the productivity of our sales force, revenues, deferred revenues, cost of revenues, operating expenses, stock-based compensation and provision for income taxes; the growth of our customer base and customer demand for our products; the sufficiency of our cash balances and cash flows; the impact of recent changes in accounting standards; market risk sensitive instruments; contractual obligations; and assumptions underlying any of the foregoing. In some cases, forward-looking statements can be identified by the use of terminology such as "may," "will," "expects," "intends," "plans," "anticipates," "estimates," "potential," or "continue," or the negative thereof, or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, these expectations or any

of the forward-looking statements could prove to be incorrect, and actual results could differ materially from those projected or assumed in the forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to risks and uncertainties, including but not limited to the factors set forth in this Annual Report under Part I, Item 1A. *Risk Factors*. All forward-looking statements and reasons why results may differ included in this Annual Report are made as of the date of the filing of this Annual Report, and we assume no obligation to update any such forward-looking statements or reasons why actual results may differ.

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto appearing in Part II, Item 8 of this Annual Report.

## Overview

We are a global medical device company focused on providing innovative products that improve the quality of life of patients suffering from chronic pain. We have developed and commercialized the Senza spinal cord stimulation (SCS) system, an evidence-based neuromodulation platform for the treatment of chronic pain. Our proprietary paresthesia-free HF10 therapy, delivered by our Senza system, was demonstrated in our SENZA-RCT study to be superior to traditional SCS therapy with Senza being nearly twice as successful in treating back pain and 1.5 times as successful in treating leg pain when compared to traditional SCS therapy. Comparatively, traditional SCS therapy has limited efficacy in treating back pain and is used primarily for treating leg pain, limiting its market adoption. Our SENZA-RCT study, along with our European studies, represents what we believe is the most robust body of clinical evidence for any SCS therapy. We believe the superiority of HF10 therapy over traditional SCS therapies will allow us to capitalize on and expand the approximately \$1.6 to \$1.8 billion existing global SCS market by treating back pain in addition to leg and pain without paresthesia.

We launched Senza commercially in the United States in May 2015, after receiving a label from the FDA supporting the superiority of our HF10 therapy over traditional SCS. The Senza system has been commercially available in certain European markets since November 2010 and in Australia since August 2011. We have experienced consistent significant revenue growth in the United States since commercial launch and, effective January 1, 2016, receive transitional pass-through payment under the Medicare hospital outpatient prospective payment system. In addition, on the basis of our strong clinical evidence, Senza is covered by each of the top 10 national insurance providers. In early 2017, we commenced a controlled commercial launch of our surgical lead, marketed as the Surpass surgical lead, which we believe will provide us access to an additional approximately 30% of the U.S. SCS market that we previously did not address. The tables below sets forth our revenue from U.S. and international sales the past two years on a quarterly basis and total revenue for each of the past three years.

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
	(in millions)							
Revenue from U.S. sales	N/A	\$ 0.1	\$ 4.5	\$ 19.8	\$ 29.5	\$ 40.6	\$ 47.2	\$ 56.0
Revenue from international sales	9.7	11.3	10.9	13.3	12.2	14.8	13.7	14.5
Total sales revenue	<u>\$ 9.7</u>	<u>\$ 11.4</u>	<u>\$ 15.4</u>	<u>\$ 33.1</u>	<u>\$ 41.7</u>	<u>\$ 55.4</u>	<u>\$ 60.9</u>	<u>\$ 70.5</u>
	<u>2014</u>		<u>2015</u>			<u>2016</u>		
	(in millions)							
Total revenue	\$ 32.6			\$ 69.6			\$ 228.5	

Since inception, we have financed our operations primarily through equity and debt financings and borrowings under a debt facility. Our accumulated deficit as of December 31, 2016 was \$221.2 million. A significant amount of our capital resources has been used to support the development of Senza and our HF10 therapy and we have also made a significant investment building our U.S. commercial infrastructure and sales force to support our commercialization efforts in the United States. We intend to continue to make significant investments in our U.S. commercial infrastructure, as well as in R&D to develop Senza to treat other chronic pain indications, including conducting clinical trials to support our future regulatory submissions. In order to further enhance our R&D efforts, pursue product expansion opportunities or acquire a new business or products that are complementary to our business, we may choose to raise additional funds, which may include future equity and debt financings.

We rely on third-party suppliers for all of the components of Senza and for the assembly of the system. Many of these suppliers are currently single-source suppliers. During 2015 and 2016, we entered into and/or amended several supply agreements in an effort to reinforce our supply chain. We are also required to maintain high levels of inventory, and, as a result, we are subject to the risk of inventory obsolescence and expiration, which may lead to inventory impairment charges. In particular, we have substantially increased our levels of inventory in order to meet our estimated demand in the United States and, as a result, incur significant expenditures associated with such increases in our inventory. Additionally, as compared to direct manufacturers, our dependence on third-party manufacturers exposes us to greater lead times increasing our risk of inventory obsolescence.

Our IPO closed in November 2014 at which time we received cash proceeds of approximately \$131.6 million, net of underwriting discounts and commissions and offering costs paid by us. In June 2015, we completed an underwritten public offering of our common stock and we received cash proceeds of approximately \$118.4 million, net of underwriting discounts and commissions and offering costs paid by us. In June 2016, we issued \$172.5 million aggregate principal amount of 1.75% convertible senior notes due 2021, or the 2021 Notes, in a registered underwritten public offering for total net proceeds, after deducting transaction costs, of approximately \$166.2 million.

In November 2016, we filed a lawsuit for patent infringement against Boston Scientific, asserting that Boston Scientific is infringing our patents covering inventions related to our HF10 therapy and the Senza system. In December 2016, Boston Scientific, filed its own lawsuit alleging that we infringed Boston Scientific's patents covering technology related to stimulation leads, batteries and telemetry units. Each of the lawsuits seek preliminary and permanent injunctive relief against further infringement as well as damages and attorney fees. We believe pursuing our lawsuit and defending ourselves against Boston Scientific's lawsuit will require significant cash resources over the immediate and near long term.

### **Important Factors Affecting our Results of Operations**

We believe that the following factors have impacted and we expect will continue to impact our results of operations.

#### ***Importance of Physician Awareness and Acceptance of Senza***

We continue to invest in programs to educate physicians who treat chronic pain about the advantages of Senza. This requires significant commitment by our marketing team and sales organization, and can vary depending upon the physician's practice specialization, personal preferences and geographic location. Further, we are competing with well-established companies in our industry that have strong existing relationships with many of these physicians. Educating physicians about the advantages of Senza, and influencing these physicians to use Senza to treat chronic pain, is required to grow our revenue.

#### ***Reimbursement and Coverage Decisions by Third-Party Payors***

Healthcare providers in the United States generally rely on third-party payors, principally federal Medicare, state Medicaid and private health insurance plans, to cover and reimburse all or part of the cost of Senza and the related implant procedure for patients. The revenue we are able to generate from sales of Senza depends in large part on the availability of reimbursement from such payors. While we currently have a favorable reimbursement decision from federal Medicare, decisions of coverage and reimbursement for Senza and the related implant procedure from private health insurance providers can vary. In general, these decisions require that such payors perform analyses to determine if the procedure is medically necessary and if our technology is covered under their existing coverage policy. These payors may deny reimbursement if they determine that the device or procedure was not used in accordance with the payor's coverage policy, is subject to individual plan benefit limitations or is investigational and/or experimental. A significant component of our commercial efforts include working with private payors to ensure positive coverage and reimbursement decisions for Senza. While favorable reimbursement decisions from federal Medicare and certain commercial payors, such as Aetna, Cigna, Humana and Kaiser, have facilitated our increase in revenue to date, certain regional Blue Cross Blue Shield plans, have denied coverage for Senza on the basis that high-frequency neuromodulation is investigational and/or experimental. We continue to engage in efforts to convince such payors of the advantages of HF10 therapy and while we have overturned some

investigational/experimental designations, such as Cigna, Blue Cross Blue Shield Highmark and Blue Cross Blue Shield of Alabama, there can be no assurances that we are successful in overturning negative coverage decisions by private health insurance plans. A significant number of negative coverage and reimbursement decisions by private insurers may impair our ability or delay our ability to grow our revenue.

### ***Inventory Buildup and Supply Chain Management***

Our Senza product consists of a substantial number of individual components and, in order to market and sell Senza effectively, we must maintain high levels of inventory. In particular, as we continue with our commercial launch of Senza in the United States and continue to add additional suppliers to fortify our supply chain, we are substantially increasing our levels of inventory. As a result, we are incurring significant uses of cash associated with the increases in our inventory, which will include satisfying certain minimum purchase obligations, as demand for Senza in the United States is developing. There may also be times in which we determine that our inventory does not meet our product requirements, as was the case for the years ended December 31, 2016 and 2015, wherein we recorded a write down of inventory of \$3.7 million and \$2.1 million, respectively. Further, the manufacturing process for Senza requires lengthy lead times, during which components may become obsolete. We may also over- or under-estimate the amount needed of a given component, in which case we may expend extra resources or be constrained in the amount of end product that we can produce. These factors subject us to the risk of inventory obsolescence and expiration, which may lead to inventory impairment charges.

### ***Investment in Research and Clinical Trials***

We intend to continue investing in R&D to expand into new indications and chronic pain conditions for Senza, as well as develop product enhancements to improve outcomes and enhance the physician and patient experience. For example, we recently commenced a controlled commercial launch of Surpass, our surgical lead product, and we are currently investing in product improvements to Senza, including enhanced MRI capabilities and a next generation IPG. While R&D and clinical testing are time consuming and costly, we believe expanding into new indications, implementing product improvements and continuing to demonstrate HF10 efficacy, safety and cost effectiveness through clinical data, each are critical to increasing the adoption of HF10 therapy.

### ***Significant Investment in U.S. Sales Organization***

We are continuing to make significant investments in building our U.S. commercial infrastructure and recruiting and training our U.S. sales force. This is a lengthy process that requires recruiting appropriate sales representatives, establishing a commercial infrastructure in the United States and training our sales representatives, and will require significant investment. Following initial training for Senza, our sales representatives typically require lead time in the field to grow their network of accounts and produce sales results. Successfully recruiting and training a sufficient number of productive sales representatives is required to achieve growth at the rate we expect. As we gain U.S. market share, we expect that growth rates will moderate.

### ***Access to Hospital Facilities***

In the United States, in order for physicians to use Senza, the hospital facilities where these physicians treat patients typically will require us to enter into purchasing contracts. This process can be lengthy and time-consuming and requires extensive negotiations and management time. In Europe, we may be required to engage in a contract bidding process in order to sell Senza, which processes are only open at certain periods of time, and we may not be successful in the bidding process.

### ***We Do Not Expect Our Revenue Growth Rate in International Markets to Continue at Historic Rates***

Our revenue from international markets has increased from \$18.2 million for the year ended December 31, 2012 to \$55.2 million for the year ended December 31, 2016. Revenue increased as a result of our sales of Senza in Europe and Australia, however, we do not expect to continue this rate of revenue growth in these international markets given our existing penetration in these markets. Despite our growth in international markets, international revenue was negatively impacted by the appreciation of the U.S. dollar. Due to governmental reimbursements

constraints in the European SCS market limiting the number of annual SCS implants and our current penetration in these markets, we expect to grow less rapidly in the future than we have in the past in this market.

### **Critical Accounting Policies, Significant Judgments and Use of Estimates**

Our management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical accounting policies and estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable in 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 sources. Actual results may differ from these estimates under different assumptions and conditions. We believe that the estimates, judgments and assumptions involved in the accounting for revenue recognition, inventory, stock-based compensation, income taxes and allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. We discuss below the critical accounting estimates associated with these policies. Historically, our estimates, judgments, and assumptions relative to our critical accounting policies have not differed materially from actual results. Our significant accounting policies are more fully described in Note 2, *Summary of Significant Accounting Policies*, of Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report.

#### ***Revenue***

We recognize revenue when all of the following criteria are met:

- persuasive evidence of an arrangement exists;
- the sales price is fixed or determinable;
- collection of the relevant receivable is reasonably assured at the time of sale; and
- delivery has occurred or services have been rendered.

For a majority of sales, where our sales representative delivers our product at the point of implantation at hospitals or medical facilities, we recognize revenue upon completion of the procedure and authorization, which represents satisfaction of the required revenue recognition criteria. For the remaining sales, which are sent from our distribution centers directly to hospitals and medical facilities, as well as distributor sales where product is ordered in advance of an implantation procedure and a valid purchase order has been received, we recognize revenue at the time of shipment of the product, which represents the point in time when the customer has taken ownership and assumed the risk of loss and the required revenue recognition criteria are satisfied. Such customers are obligated to pay within specified terms regardless of when or if they ever sell or use the products. We do not offer rights of return or price protection and we have no post-delivery obligations. We periodically provide incentive offers to customers. Product revenue is recorded net of such incentive offers.

#### ***Warranty Obligations***

We have a limited one- to five-year warranty to most customers and we warrant that our products will operate substantially in conformity with product specifications. We record an estimate for the provision for warranty claims in cost of revenue when the related revenues are recognized. This estimate is based on historical and anticipated rates of warranty claims, the cost per claim and the number of units sold. We regularly assess the adequacy of our recorded warranty liabilities and adjusts the amounts as necessary.

#### ***Inventory Valuation***

We contract with third parties for the manufacturing and packaging of all of the components of Senza. We plan the manufacture of our systems based on estimates of market demand. The nature of our business requires that we maintain sufficient inventory on hand to meet the requirements of our customers. Inventories are stated at the

lower of cost or market value. Cost is determined using actual cost on a first-in, first-out basis. Market value is determined as the lower of replacement cost or net realizable value.

We regularly review inventory quantities in consideration of actual loss experiences, projected future demand and remaining shelf life to record a provision for excess and obsolete inventory when appropriate. Inventory write downs are recorded for excess and obsolete inventory. We periodically assesses the recoverability of all inventories to determine whether write downs for impairment are required. We evaluate projected future demand as compared to remaining shelf life and other obsolescence and excess criteria in assessing the recoverability of our inventory. In determining the adequacy of reserves, we analyze the following, among other things:

- Current inventory quantities on hand;
- Product acceptance in the marketplace;
- Customer demand;
- Historical sales;
- Forecast sales;
- Product obsolescence;
- Technological innovations; and
- Character of the inventory as a distributed item, finished manufactured item or system components.

Any inventory write-downs are recorded in cost of goods sold within the statements of operations during the period in which such write-downs are determined necessary by management.

### ***Stock-Based Compensation***

Stock-based compensation costs related to stock options granted to employees are measured at the date of grant based on the estimated fair value of the award, net of estimated forfeitures. We estimate the grant date fair value, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. The fair value is recognized on a straight-line basis over the requisite service period of the stock option award, which is generally the vesting term of four years, with the exception of performance based stock option awards, whose fair value is recognized as expenses when it is determined that achieving the performance metrics are probable.

The Black-Scholes option-pricing model requires the use of highly subjective assumptions which determine the fair value of stock-based awards. The assumptions used in our option-pricing model represent management's best estimates. These estimates are complex, involve a number of variables, uncertainties and assumptions and the application of management's judgment, so that they are inherently subjective. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future. These assumptions are estimated as follows:

*Risk-Free Interest Rate.* We base the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the options for each option group.

*Expected Term.* The expected term represents the period that our stock-based awards are expected to be outstanding. Because of the limitations on the sale or transfer of our common stock as a privately held company, we do not believe our historical exercise pattern is indicative of the pattern we will experience as a publicly traded company. We have consequently used the Staff Accounting Bulletin, or SAB, 110, simplified method to calculate the expected term, which is the average of the contractual term and vesting period. Starting in late 2016, we have started to utilize our historical data for the calculation of expected term.

*Volatility.* We determine the price volatility factor based on the historical volatilities of our peer group as we did not have a sufficient trading history for our common stock. Industry peers consist of several public companies in the medical device technology industry with comparable characteristics including enterprise value, risk profiles and

position within the industry. We intend to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock share price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation. Starting in late 2016, we have started to incorporate our historical stock trading volatility with those of our peer group for the calculation of volatility.

*Dividend Yield.* The expected dividend assumption is based on our current expectations about our anticipated dividend policy. We currently do not expect to issue any dividends.

In addition to assumptions used in the Black-Scholes option-pricing model, we must also estimate a forfeiture rate to calculate the stock-based compensation for our awards. We will continue to use judgment in evaluating the assumptions related to our stock-based compensation on a prospective basis. As we continue to accumulate additional data, we may have refinements to our estimates, which could materially impact our future stock-based compensation expense.

In 2015, we began issuing restricted stock units, or RSUs. We account for stock-based compensation for the RSUs at their fair value, based on the closing market price of our common stock on the grant date. These costs are recognized on a straight-line basis over the requisite service period, which is generally the vesting term of four years, with the exception of performance based RSUs, which are recognized as expenses when it is determined that achieving the performance metrics are probable.

We estimate the fair value of the rights to purchase shares by employees under our Employee Stock Purchase Plan using the Black-Scholes option pricing formula. Our Employee Stock Purchase Plan provides for consecutive six-month offering periods and we use our own historical volatility data in the valuation.

### ***Income Tax***

We recognize deferred income taxes for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. We periodically evaluate the positive and negative evidence bearing upon realizability of our deferred tax assets. Based upon the weight of available evidence, which includes our historical operating performance, reported cumulative net losses since inception and difficulty in accurately forecasting our future results, we maintained a full valuation allowance on the net deferred tax assets as of December 31, 2016 and 2015. We intend to maintain a full valuation allowance on the federal, state and foreign deferred tax assets until sufficient positive evidence exists to support reversal of the valuation allowance.

As of December 31, 2016, we had federal and state net operating loss (NOL) carryforwards of \$224.7 million and \$77.3 million, respectively, available to offset future taxable income, due to prior period losses, which if not utilized will begin to expire in 2026 for federal purposes and will begin to expire in 2017 for state purposes. We also have federal research tax credit carryforwards that will begin to expire in 2026. Realization of these NOL and research tax credit carryforwards depends on future income, and there is a risk that our existing carryforwards could expire unused and be unavailable to reduce future income tax liabilities, which could materially and adversely affect our results of operations.

In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, our ability to utilize NOL carryforwards or other tax attributes such as research tax credits, in any taxable year may be limited if we experience, or have experienced, an “ownership change.” A Section 382 “ownership change” generally occurs if one or more stockholders or groups of stockholders, who own at least 5% of our stock, increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws.

No deferred tax assets have been recognized on our balance sheet related to our NOLs and tax credits, as they are fully reserved by a valuation allowance. As a result of our June 2015 underwritten public offering, we have experienced a Section 382 “ownership change.” We currently estimate this “ownership change” will not inhibit our ability to utilize our NOLs. We may in the future experience another Section 382 “ownership change.” If so, or if

we do not generate sufficient taxable income, we may not be able to utilize a material portion of our NOLs and tax credits even if we achieve profitability. If we are limited in our ability to use our NOLs and tax credits in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs and tax credits. This could materially and adversely affect our results of operations.

We record unrecognized tax benefits as liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available. Our policy is to recognize interest and penalties related to income taxes as a component of income tax expense. No interest or penalties related to income taxes have been recognized in the statements of operations and comprehensive loss in 2016 and 2015.

### ***Allowance for Doubtful Accounts***

We must make estimates of the collectability of accounts receivable. In doing so, we analyze historical bad debt trends, customer credit worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was \$52.8 million, net of allowance of \$1.0 million, as of December 31, 2016 and \$22.5 million, net of allowance of \$0.1 million, as of December 31, 2015.

## **Components of Results of Operations**

### ***Revenue***

Our revenue is generated from sales to two types of customers: hospitals and outpatient medical facilities served through a direct sales force and third-party distributors. Sales to hospitals and medical facilities represent the majority of our revenue. Product sales to hospitals and medical facilities are billed to, and paid by, the hospitals as part of their normal payment processes, with payment received by us in the form of an electronic transfer, check or credit card payment. Product sales to distributors are billed to and paid by the distributors as part of their normal payment processes, with payment received by us in the form of an electronic transfer.

Revenue from sales of Senza fluctuate based on the selling price of the system, as the sales price of a system varies geographically, and based on the mix of sales by geography. In addition, our revenue may fluctuate based on the ratio of trials to permanent implants. Our revenue from international sales can also be significantly impacted by fluctuations in foreign currency exchange rates, as our sales are denominated in the local currency in the countries in which we sell our products.

We expect our revenue to fluctuate from quarter to quarter due to a variety of factors, including seasonality, as we have historically experienced lower sales in the summer months and around holidays, and the impact of the buying patterns and implant volumes of our hospitals and medical facilities, and third-party distributors. In addition, in the second quarter of 2015, we commenced commercial sales of Senza in the United States and recorded revenue of approximately \$173.3 million and \$24.4 million for the years ended December 31, 2016 and 2015, respectively, for sales in the United States. We anticipate that our total revenue will increase as we continue our commercialization in the United States.

### ***Cost of Revenue***

We utilize contract manufactures for the production of Senza. Cost of revenue consists primarily of acquisition costs of the components of Senza, allocated manufacturing overhead, royalty payments, scrap and inventory obsolescence, as well as distribution-related expenses, such as logistics and shipping costs, net of costs charged to customers.

We calculate gross margin as revenue less cost of revenue divided by revenue. Our gross margin has been and will continue to be affected by a variety of factors, primarily by our costs to have our products manufactured for us, the ratio of trials to permanent implants, the period of time between a trial and the related permanent implant and, to



a lesser extent, the percentage of products we sell to distributors as compared to those sold directly to hospitals and medical facilities as our gross margin is typically higher on products we sell directly as compared to products we sell through distributors. While costs are primarily incurred in U.S. dollars, international revenue may be impacted by the appreciation or depreciation of the U.S. dollar, which may impact our overall gross margin. We expect our gross margin to be positively affected over time to the extent we are successful in reducing manufacturing costs as our sales volume increases. However, our gross margin may fluctuate from period to period.

### ***Operating Expenses***

Our operating expenses consist of R&D expense and sales, general and administrative, or SG&A, expense. Personnel costs are the most significant component of operating expenses and consist of salaries, bonus incentives, benefits, stock-based compensation and sales commissions. We expect operating expenses to increase in absolute dollars, as we continue to invest to grow our business.

*Research and Development (R&D).* R&D costs are expensed as incurred. R&D expense consists primarily of personnel costs, including salary, employee benefits and stock-based compensation expenses for our R&D employees. R&D expense also includes costs associated with product design efforts, development prototypes, testing, clinical trial programs and regulatory activities, contractors and consultants, equipment and software to support our development, facilities and information technology. We expect R&D expense to increase in absolute dollars as we continue to develop product enhancements to Senza and develop our HF10 therapy to treat other chronic pain indications, including conducting additional clinical studies. Our R&D expenses may fluctuate from period to period due to the timing and extent of our R&D and clinical trial expenses.

*Sales, General and Administrative.* SG&A expense consists primarily of personnel costs, including salary, employee benefits and stock-based compensation expenses for our sales and marketing personnel, including sales commissions, and for administrative personnel that support our general operations, such as information technology, executive management, financial accounting, customer services and human resources personnel. We expense commissions at the time of the sale. SG&A expense also includes costs attributable to marketing, as well as travel, intellectual property and other legal fees, financial audit fees, insurance, fees for other consulting services, depreciation and facilities.

In the last two years, we significantly increased the size of our sales presence internationally and increased marketing spending to generate sales opportunities. Additionally, we have made substantial investments in our U.S. commercial infrastructure to support our commercialization efforts in the United States. We expect SG&A expenses to continue to significantly increase as we build up our sales and marketing personnel to support commercialization of Senza in the United States, continue to increase the size of our sales and marketing organizations and increase our international presence and develop and assist our channel partners.

For the year ended December 31, 2016, our administrative expenses increased compared to the same period in the prior year. We expect our administrative expenses will continue to increase as we increase our headcount and expand our facility and information technology to support our growing operations. Additionally, we anticipate increased expenses related to audit, legal, regulatory and tax-related services associated with maintaining compliance with exchange listing and U.S. Securities and Exchange Commission requirements, including compliance under the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as a large accelerated filer, director and officer insurance premiums and investor relations costs associated with being a growing public company. Our SG&A expense may fluctuate from period to period due to the seasonality of our revenue and the timing and extent of our SG&A expense.

### ***Interest Income and Interest Expense***

Interest income consists primarily of interest income earned on our investments and interest expense consists of interest paid on our outstanding debt and the amortization of debt discount and debt issuance costs.

### ***Other Income (Expense), Net***

Other income (expense), net consists primarily of foreign currency transaction gains and losses and the gains and losses from the remeasurement of foreign-denominated balances to the U.S. dollar.

### ***Provision for Income Taxes***

The provision for income taxes consists primarily of income taxes in foreign jurisdictions in which we conduct business as well as states where we have determined we have state nexus. We maintain a full valuation allowance for our deferred tax assets including NOL carryforwards and R&D credits and other tax credits.

### ***Allowance for Doubtful Accounts***

We make estimates as to the overall collectability of accounts receivable and provide an allowance for accounts receivable considered uncollectible. We specifically analyze accounts receivable based on historical bad debt experience, customer concentrations, customer credit-worthiness, the age of the receivable, current economic trends, and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We record the adjustment in general and administrative expense.

### ***Recent Accounting Pronouncements***

For recent accounting pronouncements, see Note 2, *Summary of Significant Accounting Policies*, of Notes to Consolidated Financial Statements in Part II, Item 8 of this Annual Report.

## **Comparison of the Years Ended December 31, 2016 and 2015**

### ***Revenue, Cost of Revenue, Gross Profit and Gross Margin***

<b>(in thousands)</b>	<b>Years Ended December 31,</b>		<b>Change</b>
	<b>2016</b>	<b>2015</b>	
Revenue	\$ 228,504	\$ 69,606	\$ 158,898
Cost of revenue	75,433	28,120	47,313
Gross profit	<u>\$ 153,071</u>	<u>\$ 41,486</u>	<u>\$ 111,585</u>
Gross margin	67%	60%	7%

**Revenue.** Revenue increased to \$228.5 million in 2016 from \$69.6 million in 2015, an increase of \$158.9 million, or 228%, due to increased sales of the Senza system in the United States, which began in May 2015 upon receiving FDA approval of our PMA for Senza, and continued adoption of the Senza system in international markets where it had historically been sold. Further, the increase in sales of the Senza system was driven in part by our expanded sales force in the United States in 2016.

**Cost of Revenue, Gross Profit and Gross Margin.** Cost of revenue increased to \$75.4 million in 2016 from \$28.1 million in 2015, an increase of \$47.3 million, or 168%. This increase was primarily due to a \$40.0 million increase in the costs of manufactured product components as sales volumes increased, as well as a \$1.3 million increase in inventory-related charges. Gross profit increased to \$153.1 million in 2016 from \$41.5 million in 2015, an increase of \$111.6 million, or 269%. Gross profit as a percentage of revenue, or gross margin, increased to 67% in 2016 compared to 60% in 2015. The increase was partly attributed to lower manufacturing costs as a percentage of sales. Additionally, while costs were primarily incurred in U.S. dollars, international revenue was negatively impacted by the appreciation of the U.S. dollar, which negatively impacted the overall gross margin for the period.

## Operating Expenses

	Years Ended December 31,				
	2016		2015		Change Amount
(in thousands)	Amount	% of Total Revenue	Amount	% of Total Revenue	
Operating expenses:					
Research and development	\$ 33,729	15%	\$ 21,382	31%	\$ 12,347
Sales, general and administrative	142,423	62%	82,471	118%	59,952
Total operating expenses	<u>\$ 176,152</u>	<u>77%</u>	<u>\$ 103,853</u>	<u>149%</u>	<u>\$ 72,299</u>

*Research and Development (R&D) Expenses.* R&D expenses increased to \$33.7 million in 2016 from \$21.4 million in 2015, an increase of \$12.3 million, or 58%. The increase was primarily due to an increase in clinical and development expenses of \$5.8 million, headcount and related personnel and consulting costs of \$4.5 million and other healthcare professional related expenses of \$1.3 million.

*Sales, General and Administrative (SG&A) Expenses.* SG&A expenses increased to \$142.4 million in 2016 from \$82.5 million in 2015, an increase of \$60.0 million, or 73%. This increase was primarily due to an increase in personnel costs of \$47.9 million in relation to an increase in headcount for SG&A personnel in support of our continued U.S. commercial launch, increased legal and other professional services costs of \$3.2 million, including an increase of \$1.3 million related to legal expenses incurred in connection with the Boston Scientific litigations, increased travel, training and associated supply costs of \$2.8 million, increased marketing expenses of \$1.8 million, additional facilities-related costs of \$1.7 million and increased computer hardware and software expenses of \$1.0 million.

## Interest Income, Interest Expense, Other Income (Expense), Net and Provision for Income Taxes

	Years Ended December 31,		
	2016	2015	Change
(in thousands)			
Interest income	\$ 1,685	\$ 575	\$ 1,110
Interest expense	(6,394)	(2,732)	(3,662)
Other income (expense), net	(1,097)	(1,741)	644
Loss on extinguishment of debt	(1,268)	—	(1,268)
Provision for income taxes	1,623	1,166	457

*Interest Income.* Interest income increased to \$1.7 million in 2016 from \$0.6 million in 2015, primarily as a result of the increase in average investment balances.

*Interest Expense.* Interest expense increased to \$6.4 million from \$2.7 million in 2015, primarily as a result of the amortization of debt discount and debt issuance costs related to the issuance of the 2021 Notes.

*Other Income (Expense), Net.* Other income (expense), net was primarily comprised of foreign currency transaction gains and losses and the gains and losses from the remeasurement of foreign-denominated balances. Related to these two items, in 2016, we recorded a net loss of \$0.9 million, compared to 2015 when we recorded a net loss of \$1.6 million. Our remeasurement gains and losses are affected by changes in the foreign currency translation rates of the countries in which we conduct business.

*Loss on Extinguishment of Debt.* We paid in full the outstanding obligation under our credit facility in June 2016. The difference between the total payment to the lenders under the credit facility and the net carrying amount of the obligation recorded on our balance sheet was recorded as a loss on extinguishment of debt.

*Income Tax Expense.* Income tax expense was \$1.6 million in 2016 and \$1.2 million in 2015. Our income tax expense is associated primarily with foreign and state income taxes. We continue to generate tax losses for U.S. federal and state tax purposes and have NOL carryforwards creating a deferred tax asset. We have a full valuation allowance for our deferred tax assets. The change in income tax expense was primarily due to changes in foreign income taxes on profits realized by our foreign subsidiaries.

## Comparison of the Years Ended December 31, 2015 and 2014

### Revenue, Cost of Revenue, Gross Profit and Gross Margin

(in thousands)	Years Ended December 31,		Change
	2015	2014	
Revenue	\$ 69,606	\$ 32,573	\$ 37,033
Cost of revenue	28,120	11,278	16,842
Gross profit	<u>\$ 41,486</u>	<u>\$ 21,295</u>	<u>\$ 20,191</u>
Gross margin	60%	65%	(5)%

*Revenue.* Revenue increased to \$69.6 million in 2015 from \$32.6 million in 2014, an increase of \$37.0 million, or 114%, due to sales of the Senza system in the United States, which began in May 2015 upon receiving FDA approval of our PMA for Senza, and continued adoption of the Senza system in international markets where it had historically been sold. We expanded our sales force in the United States in 2015 to support our anticipated revenue growth.

*Cost of Revenue, Gross Profit and Gross Margin.* Cost of revenue increased to \$28.1 million in 2015 from \$11.3 million in 2014, an increase of \$16.8 million, or 149%. This increase was primarily due to a \$12.7 million increase in the acquisition costs of manufactured product components as sales volumes increased, as well as a \$2.0 million increase in inventory-related charges. Gross profit increased to \$41.5 million in 2015 from \$21.3 million in 2014, an increase of \$20.2 million, or 95%. Gross profit as a percentage of revenue, or gross margin, decreased to 60% in 2015 compared to 65% in 2014. The decrease was partly attributed to the costs incurred in association with ramping our operational infrastructure in response to the product launch in the United States, as well as the \$2.0 million increase in the write down of inventory in 2015. Additionally, while costs were primarily incurred in U.S. dollars, international revenue was negatively impacted by the appreciation of the U.S. dollar, which negatively impacted the overall gross margin for the period.

### Operating Expenses

(in thousands)	Years Ended December 31,				Change Amount
	2015		2014		
	Amount	% of Total Revenue	Amount	% of Total Revenue	
Operating expenses:					
Research and development	\$ 21,382	31%	\$ 19,824	61%	\$ 1,558
Sales, general and administrative	82,471	118%	29,777	91%	52,694
Total operating expenses	<u>\$ 103,853</u>	<u>149%</u>	<u>\$ 49,601</u>	<u>152%</u>	<u>\$ 54,252</u>

*Research and Development (R&D) Expenses.* R&D expenses increased to \$21.4 million in 2015 from \$19.8 million in 2014, an increase of \$1.6 million, or 8%. The increase was primarily due to an increase in headcount and related personnel and consulting costs of \$3.1 million, offset by a decrease in clinical and development expenses of \$1.4 million associated with our preclinical and regulatory costs in preparation for our June 2014 PMA submission, as well as a decrease in costs related to the reduction of R&D participation in the manufacturing process development of \$0.8 million.

*Sales, General and Administrative (SG&A) Expenses.* SG&A expenses increased to \$82.5 million in 2015 from \$29.8 million in 2014, an increase of \$52.7 million, or 177%. This increase was primarily due to an increase in personnel costs of \$35.6 million in relation to an increase in headcount for SG&A personnel in support of our U.S. commercial launch, increased travel, training, marketing and associated supply costs of \$9.5 million, increased legal and other professional services costs associated with being a public company of \$4.2 million, additional facilities-related costs of \$2.3 million and increased computer hardware and software expenses of \$0.6 million.

*Interest Income, Interest Expense, Other Income (Expense), Net and Provision for Income Taxes*

	Years Ended December 31,		
	2015	2014	Change
<b>(in thousands)</b>			
Interest income	\$ 575	\$ 141	\$ 434
Interest expense	(2,732)	(157)	(2,575)
Other income (expense), net	(1,741)	(1,880)	139
Provision for income taxes	1,166	478	688

*Interest Income.* Interest income increased to \$0.6 million in 2015 from \$0.1 million in 2014, primarily as a result of the increase in average investment balances.

*Interest Expense.* Interest expense increased to \$2.7 million in 2015 from \$0.2 million in 2014, primarily as a result of debt outstanding during 2015 as a result of borrowing under our credit facility in December 2014.

*Other Income (Expense), Net.* Other income (expense), net was primarily comprised of foreign currency transaction gains and losses and the gains and losses from the remeasurement of foreign-denominated balances. Related to these two items, in 2015, we recorded a net loss of \$1.6 million, compared to the corresponding period in prior year in which we recorded a net loss of \$1.7 million. Our remeasurement gains and losses are affected by changes in the foreign currency translation rates of the countries in which we conduct business.

*Income Tax Expense.* Income tax expense was \$1.2 million in 2015 and \$0.5 million in 2014. Our income tax expense during these periods is associated primarily with foreign income taxes. We continue to generate tax losses for U.S. federal and state tax purposes and have NOL carryforwards creating a deferred tax asset. We have a full valuation allowance for our deferred tax assets. The change in income tax expense was due to changes in foreign income taxes on profits realized by our foreign subsidiaries.

## **Liquidity, Capital Resources and Plan of Operations**

Since our inception, we have financed our operations through private placements of preferred stock, the issuance of common stock in our IPO in November 2014 and our underwritten public offering in June 2015, borrowing under our credit facility, which we have subsequently repaid, and the issuance of convertible senior notes due 2021 in June 2016. At December 31, 2016, we had cash, cash equivalents and short-term investments of \$276.4 million. Based on our current operating plan, we expect that our cash and cash equivalents on hand, together with the anticipated funds from the collection of our receivables, will be sufficient to fund our operations through at least the next 12 months.

In June 2016, we paid the outstanding principal and repayment fees under our credit facility with Capital Royalty Partners and certain of its affiliates and terminated the credit facility. As of December 31, 2016, we do not have a credit facility in place.

We expect to incur substantial expenditures in the foreseeable future in connection with the expansion of our U.S. commercial infrastructure and sales force in connection with commercializing Senza in the United States. In addition, we intend to continue to make investments in the development of Senza and HF10 therapy for the treatment of other chronic pain conditions, including ongoing R&D programs and conducting clinical trials. Further, we expect to expand significant cash resources pursuing and defending our ongoing lawsuits with Boston Scientific.

In order to further enhance our R&D efforts, pursue product expansion opportunities or acquire a new business or products that are complementary to our business, we may choose to raise additional funds.

We may continue to seek funds through equity or debt financings, or through other sources of financing. Adequate additional funding may not be available to us on acceptable terms or at all. Our failure to raise capital in the future could have a negative impact on our financial condition and our ability to pursue our business strategies. Should we choose to raise additional capital, the requirements will depend on many factors, including:

- the costs of commercialization activities related to commercializing Senza in the United States and elsewhere, including product sales, marketing, manufacturing and distribution;
- the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, including, in particular, the costs of enforcing our patent rights in the action we filed against Boston Scientific and in defending against Boston Scientific's action against us;
- the R&D activities we intend to undertake in order to expand the chronic pain indications and product enhancements that we intend to pursue;
- whether or not we pursue acquisitions or investments in businesses, products or technologies that are complementary to our current business;
- the degree and rate of market acceptance of Senza in the United States and elsewhere;
- changes or fluctuations in our inventory supply needs and forecasts of our supply needs;
- our need to implement additional infrastructure and internal systems;
- our ability to hire additional personnel to support our operations as a public company; and
- the emergence of competing technologies or other adverse market developments.

Our success depends, in part, upon our ability to establish a competitive position in the neuromodulation market by securing broad market acceptance of our HF10 therapy and Senza for the treatment of chronic pain conditions. Any product we develop that achieves regulatory clearance or approval will have to compete for market acceptance and market share. We face significant competition in the United States and internationally, which we believe will intensify as we continue to commercialize in the United States. For example, our major competitors, Medtronic, Boston Scientific and Abbott Laboratories (through its recent acquisition of St. Jude Medical), each have approved neuromodulation systems in at least the United States, Europe and Australia and have been established for several years. In addition to these major competitors, we may also face competition from other emerging competitors and smaller companies with active neuromodulation system development programs that may emerge in the future.

If we are unable to raise, or have access, to sufficient funds when needed, we may be required to delay, reduce, or terminate some or all of our commercial development plans.

The following table sets forth the primary sources and uses of cash for each of the periods presented below:

	<b>Years Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>(in thousands)</b>			
Net cash provided by (used in)			
Operating activities	\$ (58,503)	\$ (100,430)	\$ (31,148)
Investing activities	(131,687)	39,658	(108,055)
Financing activities	145,164	122,827	152,081
Effect of exchange rate on cash flows	(604)	(306)	—
Net increase (decrease) in cash and cash equivalents	<u>\$ (45,630)</u>	<u>\$ 61,749</u>	<u>\$ 12,878</u>

*Cash Used in Operating Activities.* Net cash used in operating activities was \$58.5 million, \$100.4 million and \$31.1 million for the years ended December 31, 2016, 2015 and 2014, respectively, primarily due to the net losses

during the periods of \$31.8 million, \$67.4 million and \$30.7 million, respectively. The cash used in operating activities for the year ended December 31, 2016 was affected by a net increase of \$6.6 million in accounts payable and accrued liabilities, as well as non-cash stock based compensation expense of \$15.8 million, a write down of inventories of \$4.1 million and non-cash interest expense of \$3.7 million. These changes are offset by increases in our accounts receivable of \$32.2 million and inventory balances of \$27.0 million. The cash used in operating activities for the year ended December 31, 2015 was affected by changes in operating assets and liabilities, including an increase of \$25.0 million in accounts payable and accrued liabilities, non-cash stock based compensation expense of \$7.3 million and a write down of inventories of \$2.8 million, offset by increases in our inventory balances of \$49.4 million, accounts receivable of \$16.2 million and prepaid expenses and other assets of \$2.6 million. The cash used in operating activities for the year ended December 31, 2014 was affected by changes in operating assets and liabilities, including an increase of \$3.0 million in accounts payable and accrued liabilities and non-cash stock based compensation expense of \$2.0 million, offset by an increase in our prepaid expenses and other current assets of \$1.3 million, and an increase in our inventory balances by \$5.5 million.

*Cash Used in Investing Activities.* Investing activities consisted primarily of changes in investment balances, including purchases and maturities of short-term investments, and purchases of property equipment. For the year ended December 31, 2016, we had net purchases of investments of \$128.4 million and purchases in property and equipment of \$3.4 million. For the year ended December 31, 2015, we had net proceeds from maturity of investments of \$45.3 million, offset by purchases in property and equipment of \$5.0 million. For the year ended December 31, 2014 we had net investment purchases of \$107.4 million.

*Cash Provided by Financing Activities.* Cash provided by financing activities was \$145.2 million for the year ended December 31, 2016. The majority of this cash was provided by the issuance of \$172.5 million in aggregate principal amount of the 2021 Notes. Additionally, we received proceeds of \$10.3 million from the issuance of common stock to employees. The cash received from these activities was partially offset by a net expense of \$12.0 million incurred in connection with the purchase of convertible note hedge and warrant transactions, which included the \$45.1 million purchase of convertible note hedges and proceeds of \$33.1 million related to the sale of warrants. The increase in cash provided by financing activities was partially offset by \$6.2 million of issuance costs incurred in connection with the 2021 Notes and \$19.5 million used in relation to the repayment of the credit facility. Cash provided by financing activities was \$122.8 million for the year ended December 31, 2015, primarily due to the cash received from the issuance of common stock in our underwritten public offering in June 2015 totaling \$118.4 million and cash received from the issuance of common stock to employees of \$4.4 million. Cash provided by financing activities for the year ended December 31, 2014 was \$152.1 million, primarily from the \$131.6 million in net proceeds received in the IPO, as well as borrowing under our note payable of \$19.5 million, which consisted of borrowings of \$20.0 million, and closing fees of \$0.5 million.

### ***Contractual Obligations and Commitments***

We have lease obligations consisting of operating leases for our principal offices, which expire as set forth below, and for our warehouse space that expire in 2017, as well as for office space in Switzerland that expire in 2017.

In March 2015, we entered into a lease agreement for approximately 50,000 square feet of office space located in Redwood City, California for a period beginning in June 2015 and ending in May 2022, with initial annual payments of approximately \$2.0 million, increasing to \$2.4 million annually in the final year of the lease term. In December 2016, we entered into an amendment for an additional approximately 50,000 square feet of office space adjacent to the premises under the original lease, or the Expansion Premises, with initial annual payments of \$1.2 million, increasing to \$2.9 million in the final year of the amended lease term. The lease for the Expansion Premises commences on the earlier of the following dates, or the Commencement Date: (i) the date we commence business operations in the Expansion Premises or (ii) the date upon which the landlord for the Expansion Premises substantially completes certain improvements to, and permitting for, the Expansion Premises. The amendment also extends the lease term for the original premises to terminate on the same date as the amended lease, which is the last day of the calendar month following the date that is 84 months after the Commencement Date. Under the amendment, if we are unable to move into the Expansion Premises before the Scheduled Delivery Date, as defined in the amendment, we may terminate the lease for the Expansion Premises. See Note 5, *Commitments and Contingencies*, of Notes to Consolidated Financial Statements for additional information.

In March 2015, we extended our warehouse lease through February 2017 under which we are obligated to pay approximately \$0.3 million in lease payments over the remaining term of the lease.

We have entered into supply agreements with certain of our suppliers that required certain minimum annual purchase agreements. As of December 31, 2016, we had minimum annual purchase commitments \$25.0 million due in 2017 and \$5.5 million due in each of 2018, 2019, 2020 and 2021.

Our contractual obligations related to the 2021 Notes are payments of \$3.0 million due each year from 2017 through 2020 and \$174.0 million due in 2021. These amounts represent principal and interest cash payments over the term of the 2021 Notes.

Excluding the terms under the amendment for the Expansion Premises, which is subject to certain cancellation clauses, the following table summarizes our contractual obligations as of December 31, 2016 (in thousands):

	Total	Payment date by period			More than 5 years
		Less than 1 year	1 to 3 years (in thousands)	4 to 5 years	
Notes payable, including contractual interest	\$ 186,085	\$ 3,019	\$ 6,038	\$ 177,028	\$ —
Lease obligations	12,518	2,167	4,435	4,705	1,211
Purchase obligations	47,175	25,013	11,081	11,081	—
Total	<u>\$ 245,778</u>	<u>\$ 30,199</u>	<u>\$ 21,554</u>	<u>\$ 192,814</u>	<u>\$ 1,211</u>

### Off-Balance Sheet Arrangements

Through December 31, 2016, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. For information regarding indemnification obligations, refer to Note 5, *Commitments and Contingencies*, of Notes to the Consolidated Financial Statements within Part II, Item 8 of this Annual Report.

### Segment Information

We have one primary business activity and operate as one reportable segment.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Interest Rate Risk

We are exposed to limited market risk related to fluctuations in interest rates and market prices. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. The primary objective of our investment activities is to preserve our capital to fund our operations.

We also seek to maximize income from our investments without assuming significant risk. To achieve our objectives, we maintain a portfolio of cash equivalents and investments in a variety of securities of high credit quality. As of December 31, 2016, we had cash and cash equivalents of \$41.4 million, consisting of cash and money market funds, and short-term investments of \$235.0 million, consisting of commercial paper and corporate notes. We maintained investments in money market funds that were not federally insured during the year ended December 31, 2016 and held cash in foreign banks of approximately \$3.3 million and \$5.2 million at December 31, 2016 and 2015 that was not federally insured. A portion of our investments may be subject to interest rate risk and could fall in value if market interest rates increase. However, because our investments are primarily short-term in duration, we believe that our exposure to interest rate risk is not significant. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. A hypothetical 1% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.



### ***Foreign Currency Exchange Risk***

To date, a portion of our revenue and operating expenses are incurred outside the United States and are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Australian dollar, the Euro and the United Kingdom pound sterling. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. As a component of other income (expense), we recognized net foreign currency transaction losses of \$0.9 million, \$1.6 million and \$1.7 million for the years ended December 31, 2016, 2015 and 2014, respectively. A hypothetical 10% favorable or unfavorable change in the weighted average foreign exchange rates for the year ended December 31, 2016 would have affected the Company's net loss by approximately 8%. To date, we have not engaged in any foreign currency hedging transactions. As our international operations grow, we will continue to reassess our approach to managing the risks relating to fluctuations in currency rates.

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

See Note 2, *Summary of Significant Accounting Policies*, of Notes to Consolidated Financial Statements for further information on foreign currency translation.

### ***Market Risk and Market Interest Risk***

In June 2016, we issued \$172.5 million aggregate principal amount of 1.75% convertible senior notes due 2021. The fair value of our convertible senior notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the convertible senior notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. The interest and market value changes affect the fair value of our convertible senior notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the convertible senior notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

See Note 6, *Long-term Debt*, of Notes to Consolidated Financial Statements for further information.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following consolidated financial statements, and the related notes thereto, of Nevro Corp. and the Report of the Company's Independent Registered Public Accounting Firm are filed as a part of this Annual Report.

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Nevro Corp.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive loss, of convertible preferred stock, redeemable convertible preferred stock and stockholders' equity (deficit) and of cash flows present fairly, in all material respects, the financial position of Nevro Corp. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 23, 2017

**Nevro Corp.**  
**Consolidated Balance Sheets**  
(in thousands, except share and per share data)

	December 31, 2016	December 31, 2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 41,406	\$ 87,036
Short-term investments	234,951	106,634
Accounts receivable, net of allowance for doubtful accounts of \$1,008 and \$122 at December 31, 2016 and 2015, respectively	52,818	22,522
Inventories	85,221	62,430
Prepaid expenses and other current assets	5,895	4,009
Total current assets	420,291	282,631
Property and equipment, net	7,132	5,794
Other assets	2,354	1,852
Restricted cash	806	906
Total assets	<u>\$ 430,583</u>	<u>\$ 291,183</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 16,162	\$ 21,887
Accrued liabilities	26,028	14,381
Other current liabilities	8	121
Total current liabilities	42,198	36,389
Long-term debt	138,140	19,740
Other long-term liabilities	1,211	462
Total liabilities	181,549	56,591
Commitments and contingencies (Note 5)		
Stockholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized at December 31, 2016 and 2015, respectively; zero shares issued and outstanding at December 31, 2016 and 2015, respectively	—	—
Common stock, \$0.001 par value, 290,000,000 shares authorized at December 31, 2016 and 2015, respectively; 28,886,862 and 28,143,573 shares issued and outstanding at December 31, 2016 and 2015, respectively	29	28
Additional paid-in capital	470,869	424,147
Accumulated other comprehensive loss	(678)	(175)
Accumulated deficit	(221,186)	(189,408)
Total stockholders' equity	249,034	234,592
Total liabilities and stockholders' equity	<u>\$ 430,583</u>	<u>\$ 291,183</u>

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

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

	Years Ended December 31,		
	2016	2015	2014
Revenue	\$ 228,504	\$ 69,606	\$ 32,573
Cost of revenue	75,433	28,120	11,278
Gross profit	153,071	41,486	21,295
Operating expenses			
Research and development	33,729	21,382	19,824
Sales, general and administrative	142,423	82,471	29,777
Total operating expenses	176,152	103,853	49,601
Loss from operations	(23,081)	(62,367)	(28,306)
Interest income	1,685	575	141
Interest expense	(6,394)	(2,732)	(157)
Other income (expense), net	(1,097)	(1,741)	(1,880)
Loss on extinguishment of debt	(1,268)	—	—
Loss before income taxes	(30,155)	(66,265)	(30,202)
Provision for income taxes	1,623	1,166	478
Net loss	(31,778)	(67,431)	(30,680)
Accretion of redeemable convertible preferred stock to redemption value	—	—	(147)
Net loss attributable to common stockholders	(31,778)	(67,431)	(30,827)
Other comprehensive loss:			
Changes in foreign currency translation adjustment	(163)	(178)	(147)
Changes in unrealized losses on short-term investments, net	(340)	(74)	196
Net change in other comprehensive loss	(503)	(252)	49
Comprehensive Loss	\$ (32,281)	\$ (67,683)	\$ (30,778)
Net loss per share, basic and diluted	\$ (1.12)	\$ (2.54)	\$ (6.94)
Weighted average number of common shares used to compute basic and diluted net loss per share	28,485,003	26,581,890	4,440,663

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

**Nevro Corp.**  
**Consolidated Statements of Convertible Preferred Stock, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)**  
(in thousands, except share data)

	Series A Convertible Preferred Stock		Series B and C Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balances at December 31, 2013</b>	5,437,826	\$ 47,217	9,770,222	\$ 106,018	1,120,416	\$ 1	\$ 5,331	\$ (91,150)	\$ 28	\$ (85,790)
Accretion of redeemable convertible preferred stock issuance costs	—	—	—	147	—	—	—	(147)	—	(147)
Conversion of preferred stock to common stock	(5,437,826)	(47,217)	(9,770,222)	(106,165)	15,208,048	15	153,367	—	—	153,382
Issuance of common stock upon initial public offering, net of issuance costs	—	—	—	—	8,050,000	8	131,609	—	—	131,617
Issuance of common stock in connection with license agreement	—	—	—	—	20,833	—	523	—	—	523
Exercise of common stock options	—	—	—	—	466,194	1	963	—	—	964
Vesting of early exercised stock options	—	—	—	—	—	—	154	—	—	154
Stock based compensation	—	—	—	—	—	—	1,998	—	—	1,998
Net loss	—	—	—	—	—	—	—	(30,680)	—	(30,680)
Other comprehensive income	—	—	—	—	—	—	—	—	49	49
<b>Balances at December 31, 2014</b>	—	—	—	—	24,865,491	25	293,945	(121,977)	77	172,070
Issuance of common stock upon underwritten public offering, net of issuance costs	—	—	—	—	2,470,587	3	118,436	—	—	118,439
Exercise of common stock options	—	—	—	—	774,337	—	2,958	—	—	2,958
Issuance of common stock under employee stock purchase plan	—	—	—	—	33,158	—	1,430	—	—	1,430
Vesting of early exercised stock options	—	—	—	—	—	—	53	—	—	53
Stock based compensation	—	—	—	—	—	—	7,325	—	—	7,325
Net loss	—	—	—	—	—	—	—	(67,431)	—	(67,431)
Other comprehensive loss	—	—	—	—	—	—	—	—	(252)	(252)
<b>Balances at December 31, 2015</b>	—	—	—	—	28,143,573	28	424,147	(189,408)	(175)	234,592
Conversion feature of convertible senior notes due 2021, net of allocated costs	—	—	—	—	—	—	31,767	—	—	31,767
Purchase of bond hedges	—	—	—	—	—	—	(45,092)	—	—	(45,092)
Sales of warrants	—	—	—	—	—	—	33,120	—	—	33,120
Exercise of common stock options	—	—	—	—	669,337	1	6,807	—	—	6,808
Issuance of common stock upon release of restricted stock units	—	—	—	—	1,384	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	—	—	—	—	72,568	—	3,499	—	—	3,499
Vesting of early exercised stock options	—	—	—	—	—	—	47	—	—	47
Stock based compensation	—	—	—	—	—	—	15,760	—	—	15,760
Tax benefit from stock option deductions	—	—	—	—	—	—	814	—	—	814
Net loss	—	—	—	—	—	—	—	(31,778)	—	(31,778)
Other comprehensive loss	—	—	—	—	—	—	—	—	(503)	(503)
<b>Balances at December 31, 2016</b>	—	—	—	—	28,886,862	\$ 29	\$ 470,869	\$ (221,186)	\$ (678)	\$ 249,034

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

**Nevro Corp.**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Years Ended December 31,		
	2016	2015	2014
<b>Cash flows from operating activities</b>			
Net loss	\$ (31,778)	\$ (67,431)	\$ (30,680)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	1,717	614	96
Stock-based compensation expense	15,760	7,325	1,998
Accretion of discount on short-term investments	(231)	(458)	82
Non-cash research and development expense	—	—	523
Non-cash loss on extinguishment of debt	1,156	—	—
Payment of original issue discount	(1,500)	—	—
Provision for doubtful accounts	909	90	(172)
Write-down of inventory	4,056	2,767	754
Loss on disposal of equipment	287	—	—
Non-cash interest expense	3,681	231	11
Unrealized gains (losses) on foreign currency transactions	1,854	(682)	—
Changes in operating assets and liabilities			
Accounts receivable	(32,181)	(16,233)	167
Inventories	(27,031)	(49,407)	(5,487)
Prepaid expenses and other current assets	(1,997)	(1,197)	(1,337)
Other assets	(505)	(1,432)	(204)
Accounts payable	(5,586)	17,051	1,283
Accrued liabilities	12,136	7,987	1,763
Other long-term liabilities	750	345	55
Net cash used in operating activities	(58,503)	(100,430)	(31,148)
<b>Cash flows from investing activities</b>			
Purchases of short-term investments	(372,309)	(190,000)	(159,265)
Proceeds from maturity of short-term investments	243,890	235,272	51,835
Changes in restricted cash	100	(606)	—
Purchases of property and equipment	(3,368)	(5,008)	(625)
Net cash provided by (used in) investing activities	(131,687)	39,658	(108,055)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of notes payable	—	—	19,500
Proceeds from issuance of common stock in public offering, net	—	118,439	131,617
Proceeds from issuance of convertible notes	172,500	—	—
Convertible notes initial issuance discount and debt issuance costs	(6,171)	—	—
Proceeds from issuance of warrants	33,120	—	—
Purchase of convertible note hedges	(45,092)	—	—
Repayment of debt	(19,500)	—	—
Proceeds from issuance of common stock to employees	10,307	4,388	964
Net cash provided by financing activities	145,164	122,827	152,081
Effect of exchange rate changes on cash and cash equivalents	(604)	(306)	—
Net increase (decrease) in cash and cash equivalents	(45,630)	61,749	12,878
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period	87,036	25,287	12,409
Cash and cash equivalents at end of period	\$ 41,406	\$ 87,036	\$ 25,287
<b>Supplemental disclosures of cash flow information</b>			
Cash paid for income taxes	\$ 492	\$ 670	\$ 243
Cash paid for interest	\$ 2,469	\$ 2,332	\$ —
<b>Significant non-cash transactions</b>			
Purchases of property and equipment in accounts payable	\$ 725	\$ 752	\$ —
Vesting of early-exercised stock options	\$ 47	\$ 53	\$ 154

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

**Nevro Corp.**  
**Notes to Consolidated Financial Statements**

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

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

Since inception, the Company has incurred net losses and negative cash flows from operations. During the year ended December 31, 2016, the Company incurred a net loss of \$31.8 million and used \$58.5 million of cash in operations. At December 31, 2016, the Company had an accumulated deficit of \$221.2 million and does not expect to experience positive cash flows in the immediate future. The Company has financed operations to date primarily through private placements of equity securities, borrowings under a debt agreement, the issuance of common stock in its November 2014 initial public offering, and its June 2015 underwritten public offering, as well as its June 2016 underwritten public offering of convertible senior notes due in 2021. The Company's ability to continue to meet its obligations and to achieve its business objectives for the foreseeable future is dependent upon, amongst other things, generating sufficient revenues and its ability to continue to control expenses, if necessary, to meet its obligations as they become due. Failure to increase sales of its products, manage discretionary expenditures or raise additional financing, if required, may adversely impact the Company's ability to achieve its intended business objectives.

**Public Offerings**

In November 2014, the Company completed its initial public offering (IPO) of shares of its common stock and as a result, the following transactions were recorded in the Company's consolidated financial statements during the fourth quarter of 2014:

- the sale of 8,050,000 shares of common stock, including 1,050,000 from the exercise by the underwriters of their overallotment option, at an offering price of \$18.00 per share, for net proceeds of \$131.6 million, after deducting the underwriters' discounts, commissions and offering costs paid by us; and
- immediately prior to the completion of the IPO, all the outstanding shares of the Company's redeemable convertible preferred stock and convertible preferred stock were converted into 15,208,048 shares of common stock.

In June 2015, the Company completed an underwritten public offering of its common stock, which included shares of its common stock held by certain of its stockholders, and issued 2,470,587 shares of common stock, including 705,882 shares issued pursuant to the exercise in full by the underwriters of their option to purchase additional shares. The Company received cash proceeds of approximately \$118.4 million, net of underwriting discounts and commissions and offering costs paid by the Company.

In June 2016, the Company issued \$150.0 million aggregate principal amount of 1.75% convertible senior notes due 2021 in a registered underwritten public offering and an additional \$22.5 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the underwriters (the 2021 Notes). The interest rates are fixed at 1.75% per annum and are payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2016. The total net proceeds from the debt offering, after deducting transaction costs, were approximately \$166.2 million.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

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

## Segments

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

The Company historically derived most of its revenue from sales to customers in Australia and Europe. In May 2015, the U.S. Food and Drug Administration (FDA) approved the Company's premarket approval (PMA) application to market Senza in the United States and the Company launched sales in the United States in 2015. Revenue by geography is based on the billing address of the customer. The following table sets forth revenue by geographic area for countries with revenue accounting for 10% or more of the total revenue during the periods presented:

	Years Ended December 31,		
	2016	2015	2014
United States	76%	35%	—%
Australia	*	20%	35%
United Kingdom	*	12%	18%
Germany	*	13%	17%

\* Represents less than 10%

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

## Foreign Currency Translation

The Company's consolidated financial statements are prepared in U.S. dollars (USD). Its foreign subsidiaries use their local currency as their functional currency and maintain their records in the local currency. Accordingly, the assets and liabilities of these subsidiaries are translated into USD using the current exchange rates in effect at the balance sheet date and equity accounts are translated into USD using historical rates. Revenues and expenses are translated using the monthly average exchange rates during the period when the transaction occurs. The resulting foreign currency translation adjustments from this process are recorded in accumulated other comprehensive income (loss) in the consolidated balance sheets. Unrealized foreign exchange gains and losses from the remeasurement of assets and liabilities denominated in currencies other than the functional currency of the reporting entity are recorded in other income (expense), net. The Company recorded net unrealized foreign currency transaction losses of \$1.6 million during the year ended December 31, 2016, gains of \$0.6 million during the year ended December 31, 2015 and losses of \$1.1 million during the year ended December 31, 2014. Additionally, realized gains and losses resulting from transactions denominated in currencies other than the local currency are recorded in other income (expense), net. The Company recorded realized foreign currency transaction gains of \$0.7 million during the year ended December 31, 2016, and losses of \$2.2 million and \$0.6 million during the years ended December 31, 2015 and 2014, respectively.

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



## **Use of Estimates**

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

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

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents and investments. The majority of the Company's cash is held by one financial institution in the United States in excess of federally insured limits. The Company maintained investments in money market funds that were not federally insured during the years ended December 31, 2016 and 2015, and held cash in foreign banks of approximately \$3.3 million and \$5.2 million at December 31, 2016 and 2015, respectively, that was not federally insured. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Through December 31, 2014, all of the Company's revenue had been derived from sales of its products in international markets, principally Australia and Europe. In May 2015, the Company launched sales in the United States upon receiving FDA approval to market and sell its products in the United States. In the international markets in which the Company participates, the Company uses both a direct sales force and distributors to sell its products, while in the United States the Company utilizes a direct sales force. The Company performs ongoing credit evaluations of its direct customers and distributors, does not require collateral, and maintains allowances for potential credit losses on customer accounts when deemed necessary.

There were no customers that accounted for 10% or more of the Company's revenue for each of the years ended December 31, 2016, 2015 and 2014. There were no customers that accounted for 10% or more of the Company's accounts receivable balance as of December 31, 2016 and 2015.

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

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

The Company expects to incur substantial operating losses in the near term and may need to obtain additional financing. There can be no assurance that such financing will be available or will be at terms acceptable by the Company.

## **Fair Value of Financial Instruments**

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

## **Cash and Cash Equivalents**

The Company considers all highly liquid investments purchased with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents include money market funds in the amount of \$35.5 million and \$36.6 million as of December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, the Company's cash equivalents were held in institutions in the United State and include commercial paper deposits in a money market fund which were unrestricted as to withdrawal or use.

## **Restricted Cash**

Restricted cash as of December 31, 2016 and 2015 includes a letter of credit of \$0.6 million representing collateral for the Company's Redwood City, CA building lease pursuant to an agreement dated March 5, 2015. Restricted cash additionally includes certificates of deposit of \$0.2 million as of December 31, 2016 and \$0.3 million as of December 31, 2015, collateralizing payment of charges related to the Company's credit cards.

## **Investment Securities**

The Company classifies its investment securities as available-for-sale. The Company classifies these investment securities as short-term or long-term based on the nature of the investment, its maturity date and its availability for use in current operations. Those investments with original maturities greater than three months at the date of purchase and remaining maturities of less than 12 months are considered short-term investments. Those investments with remaining maturities greater than 12 months are also classified as short-term investments as management considers them to be available for current operations if needed. The Company's investment securities are recorded at fair value based on the fair value hierarchy. Money market funds and treasury bonds are classified within Level 1 of the fair value hierarchy and the commercial paper and corporate notes are classified within Level 2 of the fair value hierarchy. Unrealized gains and losses, deemed temporary in nature, are reported as a separate component of accumulated other comprehensive income (loss).

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

## **Inventories**

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

The Company's policy is to write down inventory that has become obsolete, inventory that has a cost basis in excess of its expected lower of cost or market value, and inventory in excess of expected requirements. The estimate of excess quantities is subjective and primarily dependent on the Company's estimates of future demand for a particular product. If the estimate of future demand is inaccurate based on actual sales, the Company may increase the write down for excess inventory for that component and record a charge to inventory impairment in the accompanying consolidated statements of operations and comprehensive loss. The Company periodically evaluates the carrying value of inventory on hand for potential excess amount over demand using the same lower of cost or market approach as that has been used to value the inventory. The Company also periodically evaluates inventory quantities in consideration of actual loss experience. As a result of these evaluations, for the years ended December 31, 2016, 2015 and 2014, the Company recognized total write downs of \$4.1 million, \$2.8 million and \$0.8 million for its inventories. The Company's estimation of the future demand for a particular component of the Company's products may vary and may result in changes in estimates in any particular period.

## **Shipping and Handling Costs**

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

## **Revenue Recognition**

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

- persuasive evidence of an arrangement exists;
- the sales price is fixed or determinable;
- collection of the relevant receivable is reasonably assured at the time of sale; and
- delivery has occurred or services have been rendered.

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

## **Allowance for Doubtful Accounts**

The Company makes estimates of the collectability of accounts receivable. In doing so, the Company analyzes historical bad debt trends, customer credit worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts.

## **Warranty Obligations**

The Company has a limited one- to five-year warranty to most customers and warrants that its products will operate substantially in conformity with product specifications. The Company records an estimate for the provision for warranty claims in cost of revenue when the related revenues are recognized. This estimate is based on historical and anticipated rates of warranty claims, the cost per claim and the number of units sold. The Company regularly assesses the adequacy of its recorded warranty obligations and adjusts the amounts as necessary.

## **Property and Equipment**

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

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

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. When such an event occurs, management determines whether there has been impairment by comparing the anticipated undiscounted future net cash flows to the related asset group's carrying value. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised value, depending on the nature of

the asset. There were no impairment charges, or changes in estimated useful lives, recorded through December 31, 2016.

### **Income Taxes**

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

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

The Company records uncertain tax positions on the basis of a two-step process whereby (1) a determination is made as to whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold the Company recognizes the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority. The Company's policy is to recognize interest and penalties related to income taxes as a component of income tax expense. No interest or penalties related to income taxes have been recognized in the statements of operations and comprehensive loss in 2016 and 2015.

### **Other Comprehensive Income (Loss)**

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

### **Research and Development**

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

### **Stock-Based Compensation**

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

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

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

The Company accounts for restricted stock units at their fair value, based on the closing market price of the Company's common stock on the grant date. The fair value is amortized on a straight-line basis over the requisite service period of the awards, with the exception of performance based awards whose fair value is recorded as expenses when performance metrics are achieved.

The Company estimates the fair value of the rights to purchase shares by employees under the Employee Stock Purchase Plan using the Black-Scholes option pricing formula. The Employee Stock Purchase Plan provides for consecutive six-month offering periods and the Company uses its own historical volatility data in the valuation.

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

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

The Company accounts for stock-based compensation for the restricted stock units at their fair value, based on the closing market price of the Company's common stock on the grant date. These costs are recognized on a straight-line basis over the requisite service period, which is generally the vesting term of four years.

The Company recognizes a benefit from stock-based compensation as additional paid-in capital if an incremental tax benefit is realized by following the with-and-without approach.

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

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

### **Recent Accounting Pronouncements**

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which permits companies to measure inventory at the lower of cost and realizable value. ASU 2015-11 applies to all business entities and is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. Although the Company is currently evaluating the impact of

this guidance, it does not believe that the guidance will have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. This ASU is based on the principle that revenue is recognized to depict the transfer of 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. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which effectively delayed the adoption date by one year, to an effective date for public entities for annual and interim periods beginning after December 15, 2017. In April 2016, FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies the aspects of Topic 606 that relates to identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts and Customers*, related to further clarifications issued in ASU 2014-09. The effective dates of ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as that of ASU 2014-09. The guidance is required to be applied retrospectively to each prior reporting period presented, or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company is currently evaluating the full impact of this guidance on its consolidated financial statements, including the selection of a transition method.

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. ASU 2016-01 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company has not determined the potential effects of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This update requires an entity to recognize assets and liabilities for leases with lease terms of more than 12 months on the balance sheet. ASU 2016-02 is effective for public entities for fiscal years beginning after December 15, 2018. Although the Company is currently evaluating the impact of this guidance on its consolidated financial statements and related disclosures, the Company expects that most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This update simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for public entities for annual periods beginning after December 15, 2016. Although the Company is currently evaluating the full impact of this guidance, the Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update changes the accounting for recognizing impairments of financial assets, such that credit losses for certain types of financial instruments will be estimated based on expected losses. The update also modifies the impairment models for available-for-sale debt securities and for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for public entities for annual periods beginning after December 15, 2019. Early adoption is permitted after December 15, 2018. The Company has not determined the potential effects of this ASU on its consolidated financial statements.

In August, 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)*. The update clarifies the classification of certain cash

receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds and distributions from certain equity method investees. ASU 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted. The Company has not determined the potential effects of the guidance on its consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory*. This update is intended to reduce the complexity and diversity in practice related to the tax consequences of certain types of intra-entity asset transfers. Under this ASU, a selling entity is required to recognize a current tax expense or benefit upon the transfer of the asset. Similarly, the purchasing entity is required to recognize a deferred tax asset or liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. This ASU does not apply to intra-entity transfers of inventory, where the income tax consequences from the sale of inventory from one member of a consolidated entity to another will continue to be deferred until the inventory is sold to a third party. ASU 2016-16 is effective for public entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The Company has not determined the potential effects of the guidance on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB Emerging Issues Task Force*. The update requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for public entities for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company has not determined the potential effects of the guidance on its consolidated financial statements.

### **3. Fair Value Measurements**

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

- Level 1 — Observable inputs, such as quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, 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.

## Cash Equivalents and Short Term Investments

The Company's cash equivalents are comprised of investments in money market funds that are classified as Level 1 of the fair value hierarchy. To value its money market funds, the Company values the funds at \$1 stable net asset value, which is the quoted price in active markets for identical assets that the Company has the ability to access. The Company's short-term investments are comprised of commercial paper, corporate notes and U.S. government agency obligations. All short-term investments have been classified within Level 1 or Level 2 of the fair value hierarchy because of the sufficient observable inputs for revaluation. The Company's Level 2 investments are valued using third-party pricing sources. The pricing services utilize industry standard valuation models, including both income and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of any broker/dealer quotes on the same or similar investments, issuer credit spreads, benchmark investments, prepayment/default projections based on historical data and other observable inputs. The following table sets forth the Company's financial instruments that were measured at fair value on a recurring basis, by level, within the fair value hierarchy (in thousands):

Balance as of December 31, 2016	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Money market funds (i)	\$ 35,510	\$ —	\$ —	\$ 35,510
Commercial paper (iii)	—	160,582	—	160,582
Corporate notes (iii)	—	74,369	—	74,369
Total assets	<u>\$ 35,510</u>	<u>\$ 234,951</u>	<u>\$ —</u>	<u>\$ 270,461</u>
<b>Balance as of December 31, 2015</b>				
<b>Assets:</b>				
Money market funds (i)	\$ 36,559	\$ —	\$ —	\$ 36,559
Commercial paper (ii)	—	129,206	—	129,206
Treasury bonds (iii)	10,617	—	—	10,617
Total assets	<u>\$ 47,176</u>	<u>\$ 129,206</u>	<u>\$ —</u>	<u>\$ 176,382</u>

- (i) Included in cash and cash equivalents on the consolidated balance sheets.
- (ii) Included in either cash and cash equivalents or short-term investments on the consolidated balance sheets.
- (iii) Included in short-term investments on the consolidated balance sheets.

## Convertible Senior Notes

As of December 31, 2016, the fair value of the 1.75% convertible senior notes due 2021 was \$183.8 million. The fair value was determined on the basis of market prices observable for similar instruments and is considered Level 2 in the fair value hierarchy.



#### 4. Balance Sheet Components

##### Investments

The fair value of the Company's cash equivalents and short-term investments approximates their respective carrying amounts due to their short-term maturity. The following is a summary of the gross unrealized gains and unrealized losses on the Company's investment securities (in thousands):

	December 31, 2016			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
<b>Investment Securities</b>				
Commercial paper	\$ 160,729	\$ 6	\$ (153)	\$ 160,582
Corporate notes	74,430	3	(64)	74,369
<b>Total securities</b>	<u>\$ 235,159</u>	<u>\$ 9</u>	<u>\$ (217)</u>	<u>\$ 234,951</u>

	December 31, 2015			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Aggregate Fair Value
<b>Investment Securities</b>				
Commercial paper (i)	\$ 129,075	\$ 131	\$ —	\$ 129,206
Treasury bonds	10,616	1	—	10,617
<b>Total securities</b>	<u>\$ 139,691</u>	<u>\$ 132</u>	<u>\$ —</u>	<u>\$ 139,823</u>

- (i) Includes \$33.2 million of commercial paper that is classified as cash and cash equivalents on the consolidated balance sheet.

Realized gains or losses from the sale of investments and other-than-temporary impairments, if any, on available-for-sale securities are reported in other income (expense), net as incurred. The cost of securities sold was determined based on the specific identification method. The Company has not recorded any realized gains, realized losses or impairment on its investments during the periods presented.

The amortized costs and estimated fair values of the Company's available-for-sale securities by contractual maturities as of December 31, 2016 were as follows (in thousands):

	Amortized Cost	Fair Value
Amounts maturing within one year	\$ 233,163	\$ 232,955
Amounts after one year through five years	1,996	1,996
<b>Total investment securities</b>	<u>\$ 235,159</u>	<u>\$ 234,951</u>

##### Inventories, Net (in thousands)

	December 31,	
	2016	2015
Raw materials	\$ 44,862	\$ 37,096
Finished goods	40,359	25,334
<b>Total inventories</b>	<u>\$ 85,221</u>	<u>\$ 62,430</u>

## Property and Equipment, Net (in thousands)

	December 31,	
	2016	2015
Laboratory equipment	\$ 1,567	\$ 921
Computer equipment and software	2,388	1,836
Furniture and fixtures	2,051	1,752
Leasehold improvements	1,214	1,188
Construction in process	2,274	799
Total	9,494	6,496
Less: Accumulated depreciation and amortization	(2,362)	(702)
Property and equipment, net	<u>\$ 7,132</u>	<u>\$ 5,794</u>

Depreciation and amortization expense for the years ended December 31, 2016, 2015 and 2014 was \$1.7 million, \$0.6 million and \$96,000, respectively.

## Accrued Liabilities (in thousands)

	December 31,	
	2016	2015
Accrued payroll and related expenses	\$ 17,732	\$ 9,857
Accrued professional fees	1,067	583
Accrued taxes	2,110	2,044
Accrued clinical and research expenses	1,545	405
Accrued interest	243	—
Accrued warranty	645	394
Accrued other	2,686	1,098
Total accrued liabilities	<u>\$ 26,028</u>	<u>\$ 14,381</u>

## 5. Commitments and Contingencies

### Operating Leases

In March 2015, the Company entered into a lease agreement for approximately 50,000 square feet of office space located in Redwood City, California for a period beginning in June 2015 through May 2022 with initial annual payments of approximately \$2.0 million, increasing to \$2.4 million annually during the final year of the lease term. In December 2016, the Company entered into an amendment for an additional approximately 50,000 square feet of office space adjacent to the premises under the original lease (the Expansion Premises), with initial annual payments of \$1.2 million, increasing to \$2.9 million in the final year of the amended lease term. The lease for the Expansion Premises commences on the earlier of (i) the date the Company commences business operations in the Expansion Premises, or (ii) the date upon which the Landlord substantially completes certain improvements to, and permitting for, the Expansion Premises (the Commencement Date). The amendment also extends the lease term for the original premises to terminate on the same date as the amended lease. Under the amendment, if the Company is unable to move into the Expansion Premises before the Scheduled Delivery Date, as defined in the amendment, the Company may terminate the lease for the Expansion Premises.

The Company entered into a non-cancellable operating lease effective May 1, 2010 for facilities in Menlo Park, CA as amended in 2012 to extend the period of the lease until May 31, 2015. In March 2015, the Company extended the lease through September 30, 2015, at which time the lease terminated. In August 2014, the Company entered into a new facility lease for warehouse space beginning on August 21, 2014 through May 31, 2015, under which it is obligated to pay approximately \$100,000 in lease payments over the term of the lease. In March 2015, the Company extended the warehouse lease through February 2017 under which it is obligated to pay approximately \$0.3 million in lease payments over the remaining term of the lease.

Rent expense for the years ended December 31, 2016, 2015 and 2014 was \$2.4 million, \$1.9 million and \$0.7 million, respectively.

Excluding the terms under the amendment for the Expansion Premises, which is subject to certain cancellation clauses, future minimum lease payments under operating leases as of December 31, 2016 are as follows (in thousands):

	<u>Operating Lease</u>
Year ending December 31,	
2017	\$ 2,167
2018	2,185
2019	2,250
2020	2,318
2021	2,387
Thereafter	1,211
Total	<u>\$ 12,518</u>

### Warranty Obligations

The Company warrants that its products will operate substantially in conformity with product specifications and has a limited one- to five-year warranty to most customers. The Company established a warranty liability in June 2015. Prior to that time, replacements made under warranty were minimal and were recorded at the time that the claims were incurred. Activities related to warranty obligations were as follows (in thousands):

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Beginning Balance	\$ 394	\$ —
Provision for warranty	902	451
Utilization	(651)	(57)
Ending Balance	<u>\$ 645</u>	<u>\$ 394</u>

### Supply Agreements

The Company has entered into supply agreements with certain of the Company's suppliers that required certain minimum annual purchase agreements. As of December 31, 2016, the Company had minimum annual purchase commitments \$25.0 million due in 2017 and \$5.5 million due in each of 2018, 2019, 2020 and 2021.

### License Agreement

In March 2006, the Company entered into an amended and restated license agreement with the Mayo Foundation for Medical Education and Research (Mayo) and Venturi Group LLC (VGL), which provides the Company access to the certain know how and licensed patents owned by Mayo and VGL for treatment of central, autonomic and peripheral nervous system disorders, including pain, using devices to modulate nerve signaling. The licenses granted are exclusive and the Company has the right to sub-license. The agreement will terminate upon the last to expire patent application, unless terminated earlier. The agreement can be terminated any time after three years from March 2006 by Mayo or VGL.

Per terms of the license, the Company is required to pay royalties based on the greater of earned royalty or minimum royalty. The earned royalty will be based on a percentage of net sales of licensed products either by the Company or the sub-licensee. The minimum royalty payment will be based on royalty periods as defined in the agreement.

In March 2011, the Company entered into a Phase II License Agreement with Mayo which provides the Company access to the certain know how and licensed patents owned by Mayo. The licenses granted are exclusive

and the Company has the right to sub-license. The agreement will terminate upon the last to expire patent application, unless terminated earlier.

Per terms of the license, the Company is required to:

- Pay a retainer fee of \$40,000 per annum starting March 2011 and ending February 2013;
- Pay royalties based on the greater of earned royalty or minimum royalty. The earned royalty will be based on a percentage of net sales of licensed products either by the Company or the sub-licensee. The minimum annual royalty payment is \$200,000.

Royalties paid during the years ended December 31, 2016, 2015 and 2014 were \$1.9 million, \$0.6 million and \$0.3 million, respectively.

In November 2014, the Company issued Mayo 20,833 shares of common stock owed in connection with the IPO pursuant to the terms of the license, and recorded noncash research and development expense of \$0.5 million for the fair value of the shares on the date of issuance.

### **Contingencies**

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business activities. 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. There have been no contingent liabilities requiring accrual at December 31, 2016 and 2015.

### **Indemnification**

The Company enters into standard indemnification arrangements in the ordinary course of business. Pursuant to these arrangements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified parties for losses suffered or incurred by the indemnified party, 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 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 maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has director and officer insurance coverage that reduces the Company's exposure and enables the Company to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

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

### **Legal Matters**

On November 28, 2016, the Company filed a lawsuit for patent infringement against Boston Scientific Corporation and Boston Scientific Neuromodulation Corporation (collectively, Boston Scientific). The lawsuit, filed in the United States District Court for the Northern District of California, asserts that Boston Scientific is infringing the Company's patents covering inventions relating to the Senza system and HF10 therapy. The lawsuit seeks preliminary and permanent injunctive relief against further infringement as well as damages and attorney's fees.

On December 9, 2016, Boston Scientific filed a patent infringement lawsuit alleging the Company's manufacture, use and sale of the Senza system infringes certain of Boston Scientific's patents covering SCS technology related to stimulation leads, rechargeable batteries and telemetry. The lawsuit, filed in the United States District Court for the District of Delaware, seeks unspecified damages and attorney's fees, as well as preliminary and permanent injunctive relief against further infringement. As of December 31, 2016, the Company did not record a liability accrual, as an outcome or potential range of loss cannot be reasonably determined.

The Company is and may from time to time continue to be involved in various legal proceedings of a character normally incident to the ordinary course of its business, including several pending European patent oppositions at the European Patent Office (EPO) initiated by the Company's competitors Medtronic and Boston Scientific, which the Company does not deem to be material to its business and consolidated financial statements at this stage.

## **6. Long-term Debt**

### **1.75% Convertible Senior Notes and Convertible Note Hedge and Warrant Transactions**

In June 2016, the Company issued \$150.0 million aggregate principal amount of 1.75% convertible senior notes due 2021 in a registered underwritten public offering and an additional \$22.5 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the underwriters (the 2021 Notes). The interest rates are fixed at 1.75% per annum and are payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2016. The total net proceeds from the debt offering, after deducting initial purchase discounts and debt issuance costs, were approximately \$166.2 million.

Each \$1,000 principal amount of the 2021 Notes will initially be convertible into 10.3770 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately \$96.37 per share, subject to adjustment upon the occurrence of specified events. The 2021 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding December 1, 2020, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2016 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the measurement period) in which the trading price (as defined in the indenture to the 2021 Notes) per \$1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after December 1, 2020 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2021 Notes at any time, regardless of the foregoing circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. If the Company undergoes a fundamental change prior to the maturity date, holders of the notes may require the Company to repurchase for cash all or any portion of their notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date, the Company will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event in certain circumstances. It is the Company's current intent and policy to settle conversions through combination settlement with a specified dollar amount per \$1,000 principal amount of notes of \$1,000. During the three months ended December 31, 2016, the conditions allowing holders of the 2021 Notes to convert have not been met. The 2021 Notes are therefore not convertible during the three months ended March 31, 2017 and are classified as long-term debt. Should the sale price condition be met in a future quarter, the 2021 Notes will be convertible at the holders' option during the immediately following quarter. As of December 31, 2016, the if-converted value of the 2021 Notes did not exceed the principal value of those notes.

In accounting for the issuance of the convertible senior notes, the Company separated the 2021 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the

fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was \$32.9 million and was determined by deducting the fair value of the liability component from the par value of the 2021 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense over the term of the 2021 Notes expense at an effective interest rate of 6.29% over the contractual terms of the notes.

In accounting for the debt issuance costs of \$6.2 million related to the 2021 Notes, the Company allocated the total amount incurred to the liability and equity components of the 2021 Notes based on their relative values. Issuance costs attributable to the liability component were \$5.0 million and will be amortized to interest expense using the effective interest method over the contractual terms of the 2021 Notes. Issuance costs attributable to the equity component were netted with the equity component in stockholders' equity.

The net carrying amount of the liability component of the 2021 Notes was as follows (in thousands):

	<b>December 31, 2016</b>
Principal	\$ 172,500
Unamortized discount	(29,783)
Unamortized issuance cost	(4,577)
Net carrying amount	<u>\$ 138,140</u>

The net carrying amount of the equity component of the 2021 Notes was as follows (in thousands):

	<b>December 31, 2016</b>
Debt discount related to value of conversion option	\$ 32,945
Debt issuance cost	(1,179)
Net carrying amount	<u>\$ 31,766</u>

The following table sets forth the interest expense recognized related to the 2021 Notes (in thousands):

	<b>Year Ended December 31, 2016</b>
Contractual interest expense	\$ 1,652
Amortization of debt discount	3,162
Amortization of debt issuance costs	416
Total interest expense related to the 2021 Notes	<u>\$ 5,230</u>

In connection with the offering of the 2021 Notes, the Company entered into convertible note hedge transactions with certain bank counterparties in which the Company has the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 1.8 million shares of the Company's common stock at a price of approximately \$96.37 per share. The total cost of the convertible note hedge transactions was \$45.1 million. In addition, the Company sold warrants to certain bank counterparties whereby the holders of the warrants have the option to purchase initially (subject to adjustment for certain specified events) a total of approximately 1.8 million shares of the Company's common stock at a price of \$127.28 per share. The Company received \$33.1 million in cash proceeds from the sale of these warrants. Taken together, the purchase of the convertible note hedges and the sale of warrants are intended to offset any actual dilution from the conversion of these notes and to effectively increase the overall conversion price from \$96.37 to \$127.28 per share. As these transactions meet certain accounting criteria, the convertible note hedges and warrants are recorded in stockholders' equity and are not accounted for as derivatives. The net cost of \$12.0 million incurred in connection with the convertible note hedge and warrant transactions was recorded as a reduction to additional paid-in capital on the consolidated balance sheet.

## Capital Royalty Term Loan

On October 24, 2014, the Company entered into a credit facility (the “credit facility”) with Capital Royalty Partners and certain of its affiliates (the “lenders”) under which, subject to certain conditions, the Company could enter into three term loan agreements totaling \$50.0 million with the lenders on or before September 30, 2015. In June 2016, the Company paid the outstanding principal and repayment fees totaling \$21.0 million to the lenders, and the credit facility terminated and is now no longer in effect. The difference between the total payment to the lenders and the net carrying amount of the obligation recorded on the balance sheet was recorded as a loss on extinguishment of debt.

## 7. Convertible Preferred Stock

Prior to the initial public offering, the Company had outstanding 15,208,048 shares of convertible preferred stock. Each share of preferred stock was convertible to one share of common stock. Upon the closing of the Company’s initial public offering on November 11, 2014, all shares of outstanding redeemable convertible preferred stock were automatically converted to 15,208,048 shares of the Company’s common stock.

The Company recorded the Series B and C redeemable convertible preferred stock at fair value on the dates of issuance. The Company classified the Series B and C redeemable convertible preferred stock outside of stockholders’ deficit because the shares contain liquidation features that are not solely within the Company’s control. The Series B and C redeemable convertible preferred shares were originally issued with a contingent redemption feature, which allowed the holders to redeem their shares five years following the issuance date of the Series B and C redeemable preferred shares. Accordingly, the Company accreted the Series B and C redeemable convertible preferred stock for change in redemption value with a charge to accumulated deficit at the end of each reporting period. The Company has accreted \$0.1 million during the year ended December 31, 2014.

## 8. Stock-Based Compensation

Common stock reserved for future issuance as of December 31, 2016 was as follows:

	December 31, 2016
Outstanding stock options and restricted stock units	3,166,782
Reserved for grants of future stock options and restricted stock units	2,202,239
Reserved for employee stock purchase plan	621,029
Total common stock reserved for future issuance	<u>5,990,050</u>

## Stock Plans

The Company’s Board of Directors, or Board, and stockholders previously approved the 2007 Stock Option Plan (the “2007 Plan”). In October 2014, the Board adopted the 2014 Equity Incentive Award Plan (the “2014 Plan” and, together with the 2007 Plan, the “Stock Plans”). As of the effective date of the 2014 Plan, the Company suspended the 2007 Plan and no additional awards may be granted under the 2007 Plan. Any shares of common stock covered by awards granted under the 2007 Plan that terminate after the effective date of the 2014 Plan by expiration, forfeiture, cancellation or other means without the issuance of such shares, will be added to the 2014 Plan reserve.

Under the 2014 Plan, 1,854,166 shares of common stock were initially reserved for issuance, plus the number of shares remaining available for future awards under the 2007 Plan, as of the pricing of the IPO. The number of shares initially reserved for issuance under the 2014 Plan is subject to increase by (i) the number of shares represented by awards outstanding under the 2007 Plan that are forfeited or lapse unexercised and which following the pricing date are not issued under the 2007 Plan, and (ii) an annual increase on January 1 of each year.

Under the 2014 Plan, the Company may grant awards such as incentive stock options, nonstatutory stock options, restricted stock units and stock appreciation rights. Incentive stock options (ISO) may be granted only to

Company employees (including directors who are also employees). Nonqualified stock options (NSO) may be granted to Company employees, directors and consultants

### ***Stock Options***

Options under the 2014 Plan may be granted for periods of up to ten years and at prices no less than 100% of the estimated fair market value of the shares on the date of grant as determined by the Board, provided, however, that the exercise price of an ISO or an NSO granted to a 10% stockholder shall not be less than 110% of the estimated fair market value of the shares on the date of grant. Upon the exercise of options, the Company issues new common stock from its authorized shares. The vesting provisions of individual options vary but are generally over four years, with the exception of performance based stock options.

Pursuant to the 2014 Plan, the Company granted performance based stock options to the Company's CEO in March 2016. This performance based stock option award is subject to the CEO's continued service to the Company through each applicable vesting date. If a performance metric is not met within the time limits specified in the award agreements, the shares subject to vesting under the vesting tranche for that performance metric will be cancelled.

A summary of shares available for grant under the Stock Plans was as follows:

	<b>Shares Available for Grant</b>
<b>Balance at December 31, 2013</b>	581,585
Additional shares reserved	1,854,166
Options granted	(753,102)
Options cancelled	12,767
<b>Balance at December 31, 2014</b>	1,695,416
Additional shares reserved	994,619
Options and restricted stock granted	(975,688)
Options and restricted stock cancelled	142,362
<b>Balance at December 31, 2015</b>	1,856,709
Additional shares reserved	1,125,742
Options and restricted stock granted	(856,043)
Options and restricted stock cancelled	75,831
<b>Balance at December 31, 2016</b>	<u>2,202,239</u>



A summary of stock option activity under the Stock Plans was as follows:

	Options Outstanding		Weighted Average	
	Number of Options	Weighted Average Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
<b>Outstanding at December 31, 2013</b>	2,731,962	\$ 2.88	8.0	\$ 1,655
Options granted	753,102	\$ 13.50		
Options exercised	(498,565)	\$ 2.26		\$ 2,488
Options cancelled	(12,767)	\$ 3.60		
<b>Outstanding at December 31, 2014</b>	2,973,732	\$ 5.77	7.9	\$ 97,832
Options granted	970,238	\$ 50.16		
Options exercised	(751,610)	\$ 3.87		\$ 36,603
Options cancelled	(142,072)	\$ 19.08		
<b>Outstanding at December 31, 2015</b>	3,050,288	\$ 19.74	7.8	\$ 145,721
Options granted	498,564	\$ 66.74		
Options exercised	(667,494)	\$ 10.19		\$ 46,529
Options cancelled	(60,131)	\$ 40.89		
<b>Outstanding at December 31, 2016</b>	<u>2,821,227</u>	\$ 29.85	7.4	\$ 123,425
Options exercisable as of December 31, 2016	1,506,297	\$ 14.69	6.4	\$ 87,358
Options vested, exercisable or expected to vest as of December 31, 2016	2,739,732	\$ 29.11	7.3	\$ 121,743

The aggregate intrinsic value of options exercised is the difference between the estimated fair market value of the Company's common stock at the date of exercise and the exercise price for in-the-money options. The aggregate intrinsic value of outstanding options is the difference between the closing price as of the date outstanding and the exercise price of the underlying stock options. The weighted-average grant-date fair value of options granted during the years ended December 31, 2016, 2015 and 2014 was \$32.11, \$25.06 and \$11.33 per share, respectively. The total fair value of options vested during the years ended December 31, 2016, 2015 and 2014 was approximately \$10.7 million, \$5.2 million and \$1.2 million, respectively, based on the grant date fair value.

The options outstanding and vested under the Stock Plans by exercise price, at December 31, 2016, were as follows:

Exercise Price	Options Outstanding			Options Vested	
	Number Outstanding	Weighted Average Remaining Contractual Term (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.96 — \$1.92	141,176	2.87	\$ 1.48	141,176	\$ 1.48
\$3.60 — \$3.60	1,030,002	6.01	\$ 3.60	890,023	\$ 3.60
\$10.08 — \$38.79	572,674	7.87	\$ 25.89	247,046	\$ 25.34
\$41.83 — \$54.50	573,030	8.67	\$ 51.44	150,184	\$ 49.67
\$57.89 — \$97.52	504,345	9.27	\$ 71.37	77,868	\$ 64.20
\$0.96 — \$97.52	<u>2,821,227</u>	7.35	\$ 29.85	<u>1,506,297</u>	\$ 14.69

### Restricted Stock Units

In 2015, the Company began granting restricted stock units (RSUs) under the 2014 Plan. Holders of RSUs do not have stockholder rights. Upon the release of RSUs, the Company issues new common stock from its authorized shares. RSUs generally vest four years from the date of grant.

Pursuant to the 2014 Plan, the Company granted performance based RSUs to the CEO in March 2016. The performance based RSUs are subject to the CEO's continued service to the Company through each applicable

vesting date. If a performance metric is not met within the time limits specified in the RSU agreement, the shares subject to vesting under the vesting tranche for that performance metric will be canceled.

A summary of RSUs activity under the Stock Plans was as follows:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
<b>Outstanding at December 31, 2014</b>	—	\$	—
Restricted stock granted	5,450	\$	56.47
Restricted stock cancelled	(290)	\$	63.23
<b>Outstanding at December 31, 2015</b>	5,160	\$	56.09
Restricted stock granted	357,479	\$	70.31
Restricted stock released	(1,384)	\$	56.65
Restricted stock cancelled	(15,700)	\$	65.15
<b>Outstanding at December 31, 2016</b>	345,555	\$	70.39
Restricted stock expected to vest as of December 31, 2016	314,061	\$	22,820

The aggregate intrinsic value of RSUs released is calculated using the fair market value of the Company's common stock at the date of release. The aggregate intrinsic value of outstanding RSUs is calculated based on the closing price of the Company's common stock as of the date outstanding.

#### 2014 Employee Stock Purchase Plan

In October 2014, the Board adopted the 2014 Employee Stock Purchase Plan (the ESPP). A total of 196,666 shares of common stock were initially available for future issuance under the 2014 Employee Stock Purchase Plan, subject to an annual increase on January 1 of each year. The ESPP provides eligible employees with an opportunity to purchase shares of the Company's common stock through payroll deductions of up to 15% of their eligible compensation, subject to plan limitations. Under the ESPP, the purchase price of the Company stock is equal to 85% of the lower of its fair market value at the start and end of a six-month purchase period.

A summary of ESPP activity was as follows:

	December 31,		
	2016	2015	2014
Additional shares reserved	281,435	248,654	—
Shares issued	72,568	33,158	—
Shares available for future issuance	621,029	412,162	196,666
Employee contributions for shares issued (in thousands)	\$ 3,499	\$ 1,430	\$ —

#### Early Exercises

Stock options previously granted under the 2007 Plan allowed the Board of Directors to grant awards to provide employee option holders the right to elect to exercise unvested options in exchange for restricted common stock. Unvested shares, which amounted to 1,836 at December 31, 2016, 14,863 at December 31, 2015 and 29,613 at December 31, 2014, were subject to a repurchase right held by the Company at the original issue price in the event the optionees' employment was terminated either voluntarily or involuntarily. For exercises of employee options, this right lapses according to the vesting schedule designated on the associated option grant. The repurchase terms are considered to be a forfeiture provision. The shares purchased by the employees pursuant to the early exercise of stock options are not deemed to be issued or outstanding for accounting purposes until those shares vest, though they are legally issued and outstanding. In addition, cash received from employees for exercise of unvested options is treated as a refundable deposit shown as a liability on the consolidated balance sheets. As of December 31, 2016 and 2015 cash received related to unvested shares totaled \$7,000 and \$54,000, respectively. Amounts recorded are transferred into common stock and additional paid-in-capital as the shares vest.

## Other

In March 2011, the Company issued 416,983 common shares under a restricted stock agreement to one of the officers of the Company at a purchase price of \$1.44 per share. Under the terms of the agreement, the holder was entitled to purchase the shares in exchange for a promissory note. All the shares were purchased in March 2011 in exchange for a promissory note aggregating to \$0.6 million. The restricted stock agreement granted the Company repurchase rights which lapsed upon attainment of full vesting by the stockholder. The restricted common shares vested 33% one year from the vesting start date and monthly thereafter over the next two years. The note bore interest at 0.54% per annum compounded annually. The principal amount of the note along with accrued interest was discharged on a quarterly basis in arrears on a pro rata basis over a period of three years conditioned upon the holder continuing to provide services to the Company. The Company accounted for the grant of the restricted common stock as stock-based compensation based on the fair value of the shares on the original grant date, and recognized expense over the three-year vesting period. The Company recorded stock-based compensation expenses of \$48,000 for the year ended December 31, 2014. At December 31, 2014, there were no shares of common stock subject to repurchase by the Company.

## Employee Stock-Based Compensation

The Company estimated the fair value of stock options granted to employees and shares purchased by employees under the ESPP using the Black-Scholes option valuation model. The fair value is amortized on a straight-line basis over the requisite service period of the awards, with the exception of performance based stock options whose fair value is recorded as expenses when performance metrics are achieved. The following assumptions were used in estimating the fair value:

	Years Ended December 31,		
	2016	2015	2014
<b>Stock Options:</b>			
Expected term (in years)	5.3 — 6.1	5.3 — 6.1	5.3 — 6.1
Expected volatility	47% — 49%	46% — 59%	57% — 63%
Risk-free interest rate	1.3% — 1.9%	1.4% — 1.8%	1.7% — 2.0%
Dividend Yield	0%	0%	0%
<b>ESPP:</b>			
Expected term (in years)	0.5	0.5	—
Expected volatility	46% — 53%	42% — 64%	—
Risk-free interest rate	0.4% — 0.6%	0.1% — 0.3%	—
Dividend Yield	0%	0%	—

*Expected Term.* The expected term of stock-based awards represents the weighted-average period that the stock-based awards are expected to remain outstanding. The Company has opted to use the “simplified method” for estimating the expected term of the awards, whereby the expected term equals the arithmetic average of the vesting term and the original contractual term of the awards. Starting in late 2016, the Company started to utilize its own historical data for the calculation of expected term.

*Expected Volatility.* The Company determined the share price volatility for stock-based awards based on an analysis of the historical volatilities of a peer group of publicly traded medical device companies. In evaluating similarity, the Company considered factors such as industry, stage of life cycle and size. Starting in late 2016, the Company has started to incorporate its own stock trading volatility with those of its peer group for the calculation of volatility.

*Risk-Free Interest Rate.* The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of the grant for zero-coupon U.S. Treasury notes with remaining terms similar to the expected term of the stock-based awards.

*Dividend Rate.* The expected dividend was assumed to be zero as the Company has never paid dividends and has no current plans to do so.

*Expected Forfeiture Rate.* The Company is required to estimate forfeitures at the time of grant, and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. To the extent actual forfeitures differ from the estimates, the difference will be recorded as a cumulative adjustment in the period that the estimates are revised.

The Company accounts for RSUs at their fair value, based on the closing market price of the Company's common stock on the grant date. The fair value is amortized on a straight-line basis over the requisite service period of the awards, with the exception of performance based awards whose fair value is recorded as an expense when performance metrics are achieved.

A summary of pre-tax stock-based compensation expense by line items in the consolidated statements of operations was as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Cost of revenue	\$ 1,094	\$ 621	\$ 147
Research and development	3,182	1,401	661
Sales, general and administrative	11,484	5,303	1,190
Total stock-based compensation expense	<u>\$ 15,760</u>	<u>\$ 7,325</u>	<u>\$ 1,998</u>

The effect of recording pre-tax stock-based compensation expense recognized were as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Stock options	\$ 10,832	\$ 6,679	\$ 1,998
Restricted stock units	3,548	9	—
Employee stock purchase plan	1,380	637	—
Total stock-based compensation expense	<u>\$ 15,760</u>	<u>\$ 7,325</u>	<u>\$ 1,998</u>

As of December 31, 2016, total stock-based compensation expense not yet recognized, net of estimated forfeitures, were as follows:

	Unrecognized Compensation (in thousands)	Weighted-Average Amortization Period (in years)
Stock options	\$ 25,602	2.5
Restricted stock units	18,253	3.3
Employee stock purchase plan	757	0.4

## 9. Income Taxes

The components of the Company's income (loss) before income taxes were as follows:

	Years Ended December 31,		
	2016	2015	2014
	(in thousands)		
Domestic	\$ (34,258)	\$ (68,919)	\$ (31,807)
Foreign	4,103	2,654	1,605
Total income (loss) before income taxes	<u>\$ (30,155)</u>	<u>\$ (66,265)</u>	<u>\$ (30,202)</u>

The components of income tax expense are as follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
<b>Current:</b>			
Federal	\$ —	\$ —	\$ —
State	181	34	2
Foreign	1,442	1,132	476
<b>Total current</b>	<b>1,623</b>	<b>1,166</b>	<b>478</b>
<b>Deferred:</b>			
Federal	—	—	—
State	—	—	—
Foreign	—	—	—
<b>Total deferred</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total income tax expense</b>	<b>\$ 1,623</b>	<b>\$ 1,166</b>	<b>\$ 478</b>

Income tax expense differs from the amount computed by applying the statutory federal income tax rate as follows:

	Years Ended December 31,		
	2016	2015	2014
Tax at statutory federal rate	34.0%	34.0%	34.0%
State tax, net of federal benefit	(0.4)%	0.0%	0.0%
Other	(3.7)%	(3.5)%	(5.3)%
Foreign rate differential	(0.2)%	(0.5)%	0.2%
Tax credits	3.2%	1.6%	2.0%
Change in valuation allowance	(38.4)%	(33.4)%	(32.5)%
<b>Total</b>	<b>(5.5)%</b>	<b>(1.8)%</b>	<b>(1.6)%</b>

The tax effects of temporary differences and carryforwards that give rise to significant portions of deferred tax assets are as follows:

	December 31,	
	2016	2015
	(in thousands)	
Net operating loss carryforwards	\$ 60,610	\$ 56,340
Tax credits	7,655	5,236
Depreciation	26	13
Stock-based compensation	5,207	1,857
Accruals and reserves	7,559	3,617
Other	4,671	313
<b>Deferred tax assets</b>	<b>85,728</b>	<b>67,376</b>
<b>Other</b>	<b>—</b>	<b>(345)</b>
Deferred tax liabilities	—	(345)
<b>Valuation allowance</b>	<b>(85,728)</b>	<b>(67,031)</b>
<b>Net deferred tax assets</b>	<b>\$ —</b>	<b>\$ —</b>

The Company has established a full valuation allowance against its deferred tax assets due to the uncertainty surrounding realization of these assets.

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased by \$18.7 million, \$23.4 million and \$9.4 million for the years ended December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016, the Company had net operating loss carryforwards (NOLs) for federal and state income tax purposes of approximately \$224.7 million and \$77.3 million, respectively. These federal and state NOLs include excess tax benefit related to stock-based compensation in the amount of \$54.8 million and \$23.7 million, respectively. The excess tax benefit reflected in the Company's net operating loss carryforwards will be accounted for as a credit to stockholders' equity, if and when realized, under current accounting. In determining if and when excess tax benefits have been realized, the Company has elected to utilize the with-and-without approach with respect to such excess tax benefits. The federal NOLs begin expiring in 2026, and the state NOLs begin expiring in 2017.

As of December 31, 2016, the Company had research and development credit carryforwards of approximately \$5.8 million and \$5.1 million for federal and California state income tax purposes, respectively. The federal credit carryforward begins expiring in 2026, and the state credits carry forward indefinitely.

Under Section 382 of the Internal Revenue Code of 1986, as amended, the Company's ability to utilize NOLs or other tax attributes such as research tax credits, in any taxable year may be limited if the Company experiences, or has experienced, an "ownership change." A Section 382 "ownership change" generally occurs if one or more stockholders or groups of stockholders, who own at least 5% of the Company's stock, increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. As a result of the Company's June 2015 underwritten public offering, the Company experienced a Section 382 "ownership change." The Company currently estimates that this "ownership change" will not inhibit its ability to utilize its NOLs. The Company may, in the future, experience one or more additional Section 382 "ownership changes." If so, the Company may not be able to utilize a material portion of its NOLs and tax credits, even if the Company achieves profitability.

The earnings of the Company's foreign subsidiaries are not considered indefinitely reinvested. As a result, the Company has provided for residual U.S. tax on its foreign subsidiary unremitted earnings net of a foreign tax credit deferred tax asset as of December 31, 2016. The net amount of deferred tax liability is considered insignificant. The timing of the potential remittance of these earnings is uncertain at December 31, 2016.

The Company had unrecognized tax benefits (UTBs) of approximately \$3.4 million as of December 31, 2016. All of the deferred tax assets associated with these UTBs are fully offset by a valuation allowance. The following table summarizes the activity related to UTBs (in thousands):

Balance at December 31, 2013	\$ 1,065
Increases related to current year tax provisions	220
Increases related to prior year tax provisions	677
Balance at December 31, 2014	1,962
Increases related to current year tax provisions	813
Increases related to prior year tax provisions	1,069
Balance at December 31, 2015	3,844
Increases related to current year tax provisions	1,059
Decreases related to prior year tax provisions	(1,519)
Balance at December 31, 2016	<u>\$ 3,384</u>

All of these UTBs, if recognized, would affect the effective tax rate before consideration of the valuation allowance.

In accordance with ASC 740, *Income Taxes*, the Company is classifying interest and penalties as a component of tax expense. There were no interest or penalties accrued at December 31, 2016, December 31, 2015, and December 31, 2014.

The Company files U.S. federal and state income tax and foreign income tax returns with varying statutes of limitations. The Company's tax years from inception in 2006 will remain open to examination due to the carryover of the unused NOLs and tax credits. The Company does not have any tax audits or other proceedings pending.

The Company does not expect any material changes to the estimated amount of liability associated with its uncertain tax positions within the next twelve months.

## 10. Net Loss Per Share Attributable to Common Stockholders

The following table summarizes the computation of basic and diluted net loss per share attributable to common stockholders of the Company (in thousands, except share and per share data):

	Years Ended December 31,		
	2016	2015	2014
Net loss	\$ (31,778)	\$ (67,431)	\$ (30,680)
Accretion of convertible preferred stock to redemption value	—	—	(147)
Net loss attributable to common stockholders, basic and diluted	<u>\$ (31,778)</u>	<u>\$ (67,431)</u>	<u>\$ (30,827)</u>
Weighted average shares outstanding	28,492,091	26,603,512	4,486,569
Less: weighted average shares subject to repurchase	(7,088)	(21,622)	(45,906)
Weighted average shares used to compute basic and diluted net loss per share	<u>28,485,003</u>	<u>26,581,890</u>	<u>4,440,663</u>
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (1.12)</u>	<u>\$ (2.54)</u>	<u>\$ (6.94)</u>

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares and potentially dilutive securities outstanding for the period, determined using the treasury-stock method and the as-if converted method, for convertible securities, if inclusion of these is dilutive. Because the Company has reported a net loss for all periods presented, diluted net loss per common share is the same as basic net loss per common share for those periods.

The following potentially dilutive securities outstanding at the end of the periods presented have been excluded from the computation of diluted shares outstanding:

	December 31,		
	2016	2015	2014
Unreleased restricted stock	345,555	5,160	—
Options to purchase common stock	2,821,227	3,050,288	2,973,732
Total	<u>3,166,782</u>	<u>3,055,448</u>	<u>2,973,732</u>

Additionally, since the Company expects to settle the principal amount of its outstanding convertible senior notes in cash, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's common stock for a given period exceeds the conversion price of \$96.37 per share for the 2021 Notes, which has not occurred as of December 31, 2016.

## 11. Employee Benefit Plan.

In 2007, the Company adopted a 401(K) plan for its employees whereby eligible employees may contribute up to the maximum amount permitted by the Internal Revenue Code of 1986, as amended. In June 2016, the Company

adopted a policy to match a portion of employee contributions for all qualified employees participating in the 401(k) plan. For the year ended December 31, 2016, the Company recorded expense of \$1.3 million for matching contributions.

## 12. Selected Quarterly Financial Information (Unaudited)

	Three Months Ended			
	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(in thousands, except per share data)			
Total revenue	\$ 70,531	\$ 60,922	\$ 55,400	\$ 41,651
Gross profit	\$ 48,839	\$ 41,687	\$ 36,558	\$ 25,987
Loss from operations	\$ (6,269)	\$ (1,872)	\$ (5,923)	\$ (9,017)
Net loss	\$ (9,825)	\$ (3,886)	\$ (8,779)	\$ (9,288)
Net loss attributable to common stockholders, basic and diluted	\$ (9,825)	\$ (3,886)	\$ (8,779)	\$ (9,288)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.34)	\$ (0.14)	\$ (0.31)	\$ (0.33)
Shares used in computing net loss per common share, basic and diluted	28,817,333	28,542,760	28,381,253	28,194,457

	Three Months Ended			
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
	(in thousands, except per share data)			
Total revenue	\$ 33,124	\$ 15,402	\$ 11,418	\$ 9,662
Gross profit	\$ 20,353	\$ 9,434	\$ 5,910	\$ 5,789
Loss from operations	\$ (13,144)	\$ (17,709)	\$ (19,175)	\$ (12,339)
Net loss	\$ (14,191)	\$ (19,454)	\$ (19,726)	\$ (14,060)
Net loss attributable to common stockholders, basic and diluted	\$ (14,191)	\$ (19,454)	\$ (19,726)	\$ (14,060)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.51)	\$ (0.70)	\$ (0.77)	\$ (0.57)
Shares used in computing net loss per common share, basic and diluted	28,003,957	27,861,523	25,564,249	24,849,229



## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act) refers to controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by a 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 the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and our management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their control objectives.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016, the end of the period covered by this Annual Report. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of such date.

#### **Management’s Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that accurately and fairly reflect in reasonable detail the transactions and dispositions of the assets of our company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurances regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material adverse effect on our financial statements.

Our management assessed our internal control over financial reporting as of December 31, 2016, the end the period covered by this Annual Report. Management based its assessment on criteria established in “Internal Control—Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's assessment of our internal control over financial reporting, management concluded that, as of December 31, 2016, our internal control over financial reporting was effective.

Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or

improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part II, Item 8 of this Annual Report.

#### **Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the most recent fiscal quarter covered by this Annual Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Executive Officers, Significant Employee and Non-Employee Directors of the Registrant

The following table sets forth information regarding our executive officers, significant employees and directors, as of February 1, 2017:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
<b>Executive Officers</b>		
Rami Elghandour	38	President and Chief Executive Officer
Andrew H. Galligan	60	Chief Financial Officer
Doug Alleavitch	56	Vice President, Quality and Operations
Christopher Christoforou	47	Vice President, Research and Development
Michael Enxing	50	Vice President of Sales
Patrick Schmitz	57	Vice President, Operations
<b>Significant Employees</b>		
David Caraway, M.D., Ph.D.	60	Chief Medical Officer
Richard B. Carter	46	Vice President of Finance, Corporate Controller
Bradford E. Gliner	51	Vice President, Clinical & Regulatory Affairs
Michael W. Hall	68	General Counsel
Neeraj Teotia	42	Vice President, Marketing
<b>Non-Employee Directors</b>		
Michael DeMane	60	Chairman of the Board
Ali Behbahani, M.D. <sup>(2)(3)</sup>	40	Director
Lisa D. Earnhardt <sup>(1)(3)</sup>	47	Director
Frank Fischer <sup>(3)</sup>	75	Director
Wilfred E. Jaeger, M.D. <sup>(1)(2)</sup>	61	Director
Shawn T McCormick <sup>(1)</sup>	52	Director
Brad Vale, Ph.D., D.V.M. <sup>(2)</sup>	64	Director

(1) Member of the audit committee.

(2) Member of the compensation committee.

(3) Member of the nominating and corporate governance committee.

#### Executive Officers

**Rami Elghandour** joined us in October 2012, has served as our Chief Business Officer and currently serves as our President and Chief Executive Officer. From September 2008 to October 2012, Mr. Elghandour managed investments for Johnson & Johnson Development Corporation, or JJDC, where he led several investments and served on the board of directors of a number of private companies, including our board of directors. Additionally, he led strategic initiatives in the development and management of JJDC's portfolio. From 2001 to 2006, Mr. Elghandour worked for Advanced Neuromodulation Systems, Inc. (acquired by St. Jude Medical), a medical device company, where he led firmware design and development on several implantable neurostimulators. Mr. Elghandour received an M.B.A. from the Wharton School of the University of Pennsylvania and a B.S. in Electrical and Computer Engineering from Rutgers University School of Engineering.

**Andrew H. Galligan** has served as our Chief Financial Officer since May 2010. From February 2009 to July 2010, Mr. Galligan served as Vice President of Finance and Chief Financial Officer at Ooma, a consumer electronics manufacturer and VOIP service provider. From 2007 to 2008, Mr. Galligan served as Vice President of Finance and CFO of Reliant Technologies, Inc. (later acquired by Solta Medical, Inc.), a medical device company. Mr. Galligan has also held the top financial executive position at several other medical device companies and began his career in various financial positions at KPMG and Raychem Corp. Mr. Galligan served on the board of directors of DiaDexus, Inc., a public medical diagnostics company, until January 2015. Mr. Galligan received a degree in

Business Studies from Trinity College in Dublin, Ireland and is also a Fellow of the Institute of Chartered Accountants in Ireland.

**Doug Alleavitch** has served as our Vice President, Quality since April 2015. From October 2009 to April 2015, Mr. Alleavitch served as Vice President, Operations and Quality Assurance at AEGEA Medical, Inc., a medical device company, where he oversaw manufacturing and quality assurance procedures. From August 2007 to September 2009, Mr. Alleavitch served first as Senior Director, Manufacturing and later as Vice President, Operations at AngioScore, Inc., a medical device company, where he oversaw AngioScore's production, supply chain management and manufacturing engineering. From February 2002 to July 2007, Mr. Alleavitch served first as Director, Quality Assurance and later as Director, Operations at Boston Scientific, a medical device company. Mr. Alleavitch received a BS in Chemical Engineering from Cornell University, an M.S. in Industrial Engineering, and an M.B.A. from the University of Illinois, and an M.S. in Chemical Engineering from the Illinois Institute of Technology.

**Christofer Christoforou** has served as our Vice President, Research and Development since July 2016. From December 2014 to July 2016, Mr. Christoforou served as Vice President, Quality Engineering at Thoratec Corporation, a medical device company where he oversaw the operational, design and supplier quality engineering functions. From October 1999 to December 2014, Mr. Christoforou served in several leadership positions of increasing levels of responsibility at Thoratec Corporation. From August 1993 to February 1999, Mr. Christoforou served as a Manager of Engineering and various Engineering positions for United States Surgical Corporation, a producer of tools for use in surgery. Mr. Christoforou received a B.S. in Biomedical Engineering from Boston University and a MS in Biomedical Engineering from The Johns Hopkins University in Maryland.

**Michael Enxing** has served as our Vice President of Sales since December 2012. From 2009 to December 2012, Mr. Enxing served as Vice President of Vertos Medical Inc., a medical device company. From 1990 to 2009, Mr. Enxing held various executive positions at Cardiovascular Systems, Inc. (f/k/a Cardio Vascular Solutions (CSI)), a medical device company, Advanced Neuromodulation Systems, Inc. (acquired by St. Jude Medical), a medical device company, Stryker Corporation, a medical technology company, and Tecno Medical Products, Inc. (acquired by Kimberly Clark), a medical device company. Mr. Enxing is a graduate of Iowa State University with a B.S. in Communications and focus in business administration.

**Patrick Schmitz** has served as our Vice President, Operations since March 2016. From 2005 to October 2015, Mr. Schmitz served as Vice President, Operations at Thoratec Corporation, a medical device company, where he oversaw all domestic and international operations. From 2003 to 2005, Mr. Schmitz served as Vice President, North American Operations at GN ReSound, a medical device company. Mr. Schmitz also held several leadership positions in increasing levels of responsibility at St. Jude from 1993 to 2003. Mr. Schmitz holds a B.S. in Industrial Technology from the University of Wisconsin – Stout.

### **Significant Employees**

**David Caraway, M.D., Ph.D.** has served as our Chief Medical Officer since April 2014. Before joining Nevro, from 2001 to May 2014, Dr. Caraway was the CEO of The Center for Pain Relief, Tri-State, L.L.C., in partnership with St. Mary's Regional Medical Center in Huntington, West Virginia. Dr. Caraway has maintained an active medical practice for over 20 years and has held leadership positions in the North American Neuromodulation and the American Society of Interventional Pain Physicians. As a nationally recognized expert in the treatment of chronic pain, he has lectured regionally, nationally and internationally in the field of Interventional Pain Medicine and authored numerous publications in this field. Dr. Caraway received a B.S. in chemical engineering from the University of Virginia School of Engineering, an M.D. from the University of Virginia School of Medicine and a Ph.D. in biophysics from the University of Virginia Graduate School of Arts and Sciences. He also received post-graduate training in anesthesiology and pain management from the University of Virginia. Dr. Caraway is board certified by the American Board of Anesthesiology.

**Richard B. Carter** has served as our Vice President of Finance, Corporate Controller since November 2015, having held roles of increasing responsibility in finance and accounting since joining Nevro as Corporate Controller in September 2014. From October 2013 to October 2014, Mr. Carter served as Corporate Controller at ClearEdge Power, Inc., a privately held fuel cell manufacturing company. From December 2011 to October 2013, Mr. Carter

served as the Vice President of Finance and Corporate Controller at Kovio, Inc., a privately held electronic device manufacturing company. From March 2007 to December 2011, Mr. Carter served as Vice President of Finance and Corporate Controller at MiaSolé, a thin-film solar panel manufacturer. Previously, Mr. Carter served as the Corporate Controller at PortalPlayer, Inc. and Transmeta Corporation, both publicly traded fabless semiconductor companies. Mr. Carter received a B.S. in Business Administration from California State University, Chico. Mr. Carter is a Certified Public Accountant (inactive license) and began his career as an auditor at Ernst & Young, LLP.

**Bradford E. Gliner** has served as our Vice President of Clinical and Regulatory Affairs since May 2011. From 2008 to May 2011, Mr. Gliner was President and CEO at MitoGuard Neuroscience, Inc., a photobiomodulation medical device company. From 1999 to 2008, Mr. Gliner was Vice President of Research at Northstar Neuroscience, Inc., a medical device company, where he led research on numerous neuromodulation applications. From 1992 to 1999, Mr. Gliner was also a co-founder of Heartstream, Inc. (acquired by Koninklijke Philips Electronics NV), a medical device company that manufactures and markets automatic external defibrillators. Mr. Gliner received a B.S. in Electrical Engineering from the University of Illinois and a M.S. in Biomedical Engineering from Johns Hopkins University in Maryland.

**Michael Hall** has served as our General Counsel since January 2015. He was a partner at Latham & Watkins from February 1999 to December 2014. Mr. Hall practiced for a number of years at Wilson, Sonsini, Goodrich & Rosati and was a co-founder of Venture Law Group prior to joining Latham & Watkins. His practice was focused on representation of life science companies primarily in the medical device industry. He also represented underwriters and venture capital firms in both public and private financing transactions. He is a member of the board of San Francisco RBI, a non-profit focused on sports and literacy for underprivileged children in San Francisco. Mr. Hall received a B.A. from California University, Sonoma and a J.D. from the University of California at Berkeley, School of Law (Boalt Hall).

**Neeraj Teotia** has served as our Vice President of Marketing since May 2016, having held roles of increasing responsibility in marketing since joining Nevro as Director, Marketing in April 2014. From July 2012 to April 2014 Mr. Teotia served as a Director, New Business Development in the Global Surgery Group at Johnson & Johnson where he was responsible for assessing various licensing and acquisition opportunities. Prior to his role in New Business Development, Mr. Teotia worked in various marketing, licensing & acquisitions and research & development roles within the medical device group at Johnson & Johnson. Mr. Teotia received a MBA from the Kellogg School of Management at Northwestern University and holds a B.S. in Electrical Engineering from the University of Illinois at Urbana-Champaign.

#### **Non-Employee Directors**

**Michael DeMane** joined us in March 2011, has served as our Chief Executive Officer and as Executive Chairman. Effective January 1, 2017, Mr. DeMane transitioned to non-executive Chairman of the Board. Mr. DeMane has served on the board of directors of several private companies since 2009, as well as on the board of directors of eReserach Technology, Inc., a public company specializing in contract research clinical services, from July 2008 to April 2012. From March 2009 to June 2010, Mr. DeMane served as a Senior Advisor to Thomas, McNerney & Partners, a healthcare venture firm. Mr. DeMane served as the Chief Operating Officer of Medtronic, Inc. from August 2007 to April 2008. Prior to his COO role, Mr. DeMane served at Medtronic Inc. as Senior Vice President from May 2007 to August 2007, Senior Vice President and President: Europe, Canada, Latin America and Emerging Markets from August 2005 to May 2007, Senior Vice President and President: Spinal, ENT and Navigation from February 2002 to August 2005, and President, Spinal from January 2000 to February 2002. Prior to that, he was President at Interbody Technologies, a division of Medtronic Sofamor Danek, Inc., from June 1998 to December 1999. From April 1996 to June 1998, Mr. DeMane served at Smith & Nephew Pty. Ltd. as Managing Director, Australia and New Zealand, after a series of research and development and general management positions with Smith & Nephew Inc. Mr. DeMane earned a B.S. in Chemistry from St. Lawrence University and an M.S. in Bioengineering from Clemson University. We believe that Mr. DeMane is qualified to serve on our board of directors due to his investment experience, strategic leadership track record, service on other boards of directors of companies in the healthcare industry and his service as our chief executive officer.

**Ali Behbahani, M.D.** has served on our board of directors since September 2014. Dr. Behbahani joined New Enterprise Associates, Inc., or NEA, in 2007 and is a Partner on the healthcare team. Prior to joining NEA,

Dr. Behbahani worked as a consultant in business development at The Medicines Company, a specialty pharmaceutical company developing acute care cardiovascular products. Dr. Behbahani previously held positions as a venture associate at Morgan Stanley Venture Partners and as a healthcare investment banking analyst at Lehman Brothers. He conducted basic science research in the fields of viral fusion inhibition and structural proteomics at the National Institutes of Health and at Duke University. Dr. Behbahani currently serves on the board of directors of several private companies. Dr. Behbahani has also been a director of Adaptimmune Therapeutics plc, a public biopharmaceutical company, since September 2014, and serves on the nominating and governance committee. Dr. Behbahani holds an M.D. from The University of Pennsylvania School of Medicine, an M.B.A. from The University of Pennsylvania Wharton School and a B.A. in Biomedical Engineering, Electrical Engineering and Chemistry from Duke University. We believe that Dr. Behbahani is qualified to serve on our board of directors due to his experience in the life science industry and his investment experience.

**Lisa D. Earnhardt** has served on our Board since June 2015. She has served as President and Chief Executive Officer of Intersect ENT and as a member of its board of directors since March 2008. Prior to joining Intersect ENT, Ms. Earnhardt served as President of Boston Scientific's Cardiac Surgery division (formerly known as Guidant Corporation, or Guidant) from June 2006 to January 2008 until its sale to Getinge Group. From August 1996 to April 2006, Ms. Earnhardt worked at Guidant in a variety of sales and marketing leadership positions. Ms. Earnhardt served on the board of directors of Kensey Nash, a publicly traded company from 2011 until it was acquired by Royal DSM NA in 2012, where she served on the board's nominating and governance and audit committees. Ms. Earnhardt holds an M.B.A. from Northwestern's Kellogg School of Management and a B.S. in Industrial Engineering from Stanford University. We believe that Ms. Earnhardt is qualified to serve on our board of directors due to her experience in the medical device industry.

**Frank Fischer** has served on our board of directors since October 2012. Mr. Fischer joined NeuroPace, Inc., a privately held developer of treatment devices for neurological disorders, in 2000 and currently serves as its President and Chief Executive Officer. From May 1998 to September 1999, Mr. Fischer was President, Chief Executive Officer and a director of Heartport, Inc., a formerly publicly traded cardiac surgery company (later acquired by Johnson & Johnson in 2001). From 1987 to 1997, Mr. Fischer served as President and Chief Executive Officer of Ventritex, Inc., a publicly traded designer, developer, manufacturer and marketer of implantable defibrillators and related products for the treatment of ventricular tachycardia and ventricular fibrillation, which was acquired by St. Jude Medical in 1997. Mr. Fischer currently serves on the board of directors of several privately held companies. Mr. Fischer received a B.S. in Mechanical Engineering and a M.S. in Management from Rensselaer Polytechnic Institute. We believe that Mr. Fischer is qualified to serve on our board of directors due to his operational experience in the life science industry.

**Wilfred E. Jaeger, M.D.** has served on our board of directors since January 2012. Dr. Jaeger cofounded Three Arch Partners in 1993 and has served as a Partner and Managing Member since that time. Prior to cofounding Three Arch Partners, Dr. Jaeger was a general partner at Schroder Ventures. Dr. Jaeger currently serves on the board of directors of Concert Pharmaceuticals, Inc., a public clinical stage biopharmaceutical company, Threshold Pharmaceuticals, Inc., a public pharmaceutical company, as well as numerous private companies. Dr. Jaeger received a B.S. in Biology from the University of British Columbia, an M.D. from the University of British Columbia School of Medicine and an M.B.A. from the Stanford Graduate School of Business. We believe that Dr. Jaeger is qualified to serve on our board of directors due to his investment experience, strategic leadership track record and service on other boards of directors of life sciences companies.

**Shawn T McCormick** has served on our board of directors since September 2014. Mr. McCormick served as Chief Financial Officer of Tornier N.V., a public medical device company, from September 2012 to October 2015 when Tornier merged with Wright Medical Group. From April 2011 to February 2012, Mr. McCormick was Chief Operating Officer of Lutonix, Inc., a medical device company acquired by C. R. Bard, Inc. in December 2011. From January 2009 to July 2010, Mr. McCormick served as Senior Vice President and Chief Financial Officer of ev3 Inc., a public endovascular device company acquired by Covidien plc in July 2010. From May 2008 to January 2009, Mr. McCormick served as Vice President, Corporate Development at Medtronic, Inc., a public medical device company, where he was responsible for leading Medtronic's worldwide business development activities. From 2007 to 2008, Mr. McCormick served as Vice President, Corporate Technology and New Ventures of Medtronic. From 2002 to 2007, Mr. McCormick was Vice President, Finance for Medtronic's Spinal, Biologics and Navigation business. Prior to that, Mr. McCormick held various other positions with Medtronic, including Corporate

Development Director, Principal Corporate Development Associate, Manager, Financial Analysis, Senior Financial Analyst and Senior Auditor. Prior to joining Medtronic, he spent four years with the public accounting firm KPMG Peat Marwick. He has been a director of Entellus Medical, Inc., a public medical device company, since November 2014, and serves as the chairman of the audit committee and as a member of the nominating and corporate governance committee. Mr. McCormick has been a director of SurModics, Inc., a public medical device and in vitro diagnostic technologies company, since December 2015 and serves on the audit committee and corporate governance and nominating committee. Mr. McCormick earned his M.B.A. from the University of Minnesota's Carlson School of Management and his B.S. in Accounting from Arizona State University. He is a Certified Public Accountant (inactive license). We believe that Mr. McCormick is qualified to serve on our board of directors due to his financial expertise and operational experience in the medical device industry.

**Brad Vale, Ph.D., D.V.M.**, has served on our board of directors since March 2015. Dr. Vale was Head of Johnson & Johnson Development Company, or JJDC, from January 2012 to March 2015. Dr. Vale joined JJDC in March 1992, and in April 2008, was appointed to the position of Vice President, Head of Venture Investments. From September 1989 to March 1992, Dr. Vale supported Johnson & Johnson's medical device businesses at the Corporate Office of Science and Technology as an Executive Director. From 1982 to 1989, he was at Ethicon, Inc., a Johnson & Johnson subsidiary, working on preclinical studies, new business development, and a coronary artery bypass graft internal venture. Dr. Vale currently serves or has served on the board of directors of several private companies. Dr. Vale holds a Ph.D. from Iowa State University, a D.V.M. from Washington State University and a B.S. in Chemistry and Biology from Beloit College. We believe that Dr. Vale is qualified to serve on our board of directors due to his investment experience and strategic leadership in the life sciences industry.

The remaining information required by this Item 10 is hereby incorporated by reference from the information under the captions "Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" that will be contained in the Proxy Statement for our 2017 Annual Meeting of Stockholders (or the Proxy Statement).

We have adopted a written code of conduct and ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons serving similar functions. The text of our code of business conduct and ethics has been posted on our website at <http://www.nevro.com>.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item 11 is incorporated by reference from the information under the captions "Director Compensation," "Executive Compensation" and "Corporate Governance" that will be contained in the Proxy Statement.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item 12 is incorporated by reference from the information under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" that will be contained in the Proxy Statement.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item 13 is incorporated by reference from the information under the captions "Certain Relationships and Related Transactions" and "Corporate Governance" that will be contained in the Proxy Statement.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item 14 is incorporated by reference from the information under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm" that will be contained in the Proxy Statement.

## **PART IV**

### **ITEM 15. EXHIBITS and FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Annual Report:

**1. Consolidated Financial Statements:**

Reference is made to the Index to consolidated financial statements of Nevro Corp. under Item 8 of Part II hereof.

**2. Financial Statement Schedule:**

All schedules are omitted because they are not applicable or the amounts are immaterial or the required information is presented in the consolidated financial statements and notes thereto in Part II, Item 8 above.

**3. Exhibits**

See Exhibit Index immediately following the signature page of this Form 10-K.

### **ITEM 16. FORM 10-K SUMMARY**

None.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 23, 2017:

### NEVRO CORP.

By: /s/ Rami Elghandour  
Rami Elghandour  
President and Chief Executive Officer

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints each of Rami Elghandour and Andrew H. Galligan his or her true and lawful attorney-in-fact and agent, with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated opposite his/her name.

Pursuant to the requirements of the Securities Act, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ RAMI ELGHANDOUR</u> Rami Elghandour	Chief Executive Officer (Principal Executive Officer)	February 23, 2017
<u>/s/ ANDREW H. GALLIGAN</u> Andrew H. Galligan	Chief Financial Officer (Principal Financial and Accounting Officer)	February 23, 2017
<u>/s/ MICHAEL DEMANE</u> Michael DeMane	Chairman of the Board	February 23, 2017
<u>/s/ ALI BEHBAHANI</u> Ali Behbahani, M.D.	Director	February 23, 2017
<u>/s/ LISA EARNHARDT</u> Lisa Earnhardt	Director	February 23, 2017
<u>/s/ FRANK FISCHER</u> Frank Fischer	Director	February 23, 2017
<u>/s/ WILFRED E. JAEGER</u> Wilfred E. Jaeger, M.D.	Director	February 23, 2017
<u>/s/ SHAWN T MCCORMICK</u> Shawn T McCormick	Director	February 23, 2017
<u>/s/ BRAD H. VALE</u> Brad H. Vale, Ph.D., D.V.M	Director	February 23, 2017

## Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference Form	Date	Number	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Nevro Corp.	8-K	11/12/2014	3.1	
3.2	Amended and Restated Bylaws of Nevro Corp.	8-K	11/12/2014	3.1	
4.1	Reference is made to exhibits 3.1 and 3.2.				
4.2	Form of Common Stock Certificate.	S-1/A	10/27/2014	4.2	
4.3	Indenture, dated as of June 13, 2016, by and between the Company and Wilmington Trust, National Association.	8-K	6/13/2016	4.1	
4.4	First Supplemental Indenture, dated as of June 13, 2016, by and between the Company and Wilmington Trust, National Association.	8-K	6/13/2016	4.2	
4.5	Form of 1.75% Convertible Senior Note Due 2021.	8-K	6/13/2016	4.3	
10.1†	Amended and Restated License Agreement, dated October 2, 2006, by and among the Company and Mayo Foundation for Medical Education and Research, Venturi Group, LLC.	S-1/A	10/15/2014	10.1	
10.2(a)†	Stellar Manufacturing Agreement, dated as of July 1, 2009, by and between the Company and Stellar Technologies, Inc.	S-1/A	10/15/2014	10.2(a)	
10.2(b)†	First Amendment to Stellar Manufacturing Agreement, dated as of July 1, 2014, by and between the Company and Stellar Technologies, Inc.	S-1/A	10/15/2014	10.2(b)	
10.2(c)†	Second Amendment to Stellar Manufacturing Agreement, dated as of January 28, 2016, by and between the Company and Stellar Technologies, Inc.	10-K	2/29/2016	10.2(c)	
10.3†	Supply Agreement, dated as of July 23, 2014 by and between the Company and Pro-Tech Design and Manufacturing, Inc.	S-1/A	10/15/2014	10.3	
10.4(a)†	Supply Agreement, dated April 1, 2012, by and between the Company and CCC del Uruguay S.A.	S-1/A	10/15/2014	10.4(a)	
10.4(b)†	Amendment to Supply Agreement, dated as of March 20, 2013, by and between the Company and CCC del Uruguay S.A.	S-1/A	10/15/2014	10.4(b)	
10.5(a)†	Product Supply and Development Agreement, dated as of April 15, 2009, by and between the Company and EaglePicher Medical Power LLC.	S-1/A	10/15/2014	10.5	
10.5(b)†	First Amendment to the Product Supply and Development Agreement, dated as of March 4, 2015, by and between the Company and	10-K	3/18/2015	10.5(b)	

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference Form</b>	<b>Date</b>	<b>Number</b>	<b>Filed Herewith</b>
	EaglePicher Medical Power LLC.				
10.5(c)†	Second Amendment to the Product Supply and Development Agreement, dated as of October 23, 2015, by and between the Company and EaglePicher Medical Power LLC.	10-K	2/29/2016	10.5(c)	
10.6(a)	Amended and Restated Registration Rights Agreement, dated February 8, 2013, by and among the Company and the investors listed therein.	S-1	10/03/2014	10.6(a)	
10.6(b)	Amendment to Amended and Restated Registration Rights Agreement, dated March 5, 2013, by and among the Company and the investors listed therein.	S-1	10/03/2014	10.6(b)	
10.6(c)	Second Amendment to Amended and Restated Registration Rights Agreement, dated October 24, 2014, by and among the Company and the investors listed therein.	S-1/A	11/04/14	10.6(c)	
10.7(a)	Multi-Tenant Space Lease, dated as of March 15, 2010, by and between Deerfield Campbell LLC and the Company.	S-1	10/03/2014	10.7(a)	
10.7(b)	First Amendment to Lease, dated as of October 18, 2012, by and between Deerfield Campbell LLC and the Company.	S-1	10/03/2014	10.7(b)	
10.7(c)	Second Amendment to Lease, dated as of February 18, 2015, by and between Deerfield Campbell LLC and the Company.	10-K	3/18/2015	10.7(c)	
10.8(a)#	Nevro Corp. 2007 Stock Incentive Plan, as amended as of March 5, 2013.	S-1	10/03/2014	10.8(a)	
10.8(b)#	Form of Incentive Stock Option Agreement (ISO) under the 2007 Stock Incentive Plan, as amended.	S-1	10/03/2014	10.8(b)	
10.8(c)#	Form of Non-Incentive Stock Option Agreement (NSO) under the 2007 Stock Incentive Plan, as amended.	S-1	10/03/2014	10.8(c)	
10.8(d)#	Form of Stock Purchase Right Grant Notice and Restricted Stock Purchase Agreement under the 2007 Stock Incentive Plan, as amended.	S-1	10/03/2014	10.8(d)	
10.9(a)#	Nevro Corp. 2014 Equity Incentive Award Plan.	S-8	11/12/2014	99.2(a)	
10.9(b)#	Form of Stock Option Grant Notice and Stock Option Agreement under the 2014 Equity Incentive Award Plan.	S-1/A	10/10/2014	10.9(b)	
10.9(c)#	Form of Restricted Stock Award Agreement and Restricted Stock Award Grant Notice under the 2014 Equity Incentive Award Plan.	S-1/A	10/10/2014	10.9(c)	
10.9(d)#	Form of Restricted Stock Unit Award Agreement	S-1/A	10/10/2014	10.9(d)	

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference Form</b>	<b>Date</b>	<b>Number</b>	<b>Filed Herewith</b>
	and Restricted Stock Unit Award Grant Notice under the 2014 Equity Incentive Award Plan.				
10.10#	Nevro Corp. 2014 Employee Stock Purchase Plan.	S-8	11/12/2014	99.3	
10.11#	Form of Indemnification Agreement for directors and officers.	S-1/A	10/10/2014	10.11	
10.12(a)#	Offer Letter, dated as of March 8, 2011, by and between Michael DeMane and the Company.	S-1/A	10/10/2014	10.12(a)	
10.12(b)#	Form of Employment Agreement by and between Michael DeMane and the Company.	S-1/A	10/10/2014	10.12(b)	
10.12(c)#	Amendment to Employment Agreement, effective as of June 1, 2016, by and between Michael DeMane and the Company.	10-Q	5/6/2016	10.2	
10.13#	Offer Letter, dated as of October 9, 2012, by and between Rami Elghandour and the Company.	S-1	10/03/2014	10.13	
10.13(b)#	Employment Agreement, effective as of June 1, 2016, by and between Rami Elghandour and the Company.	10-Q	5/6/2016	10.3	
10.14#	Offer Letter, dated as of May 12, 2010, by and between Andrew H. Galligan and the Company.	S-1	10/03/2014	10.14	
10.15#	Offer Letter, dated as of November 1, 2012, by and between Michael Enxing and the Company.	S-1/A	10/10/2014	10.15	
10.16#	General Release and Separation and Transition Agreement, effective as of August 3, 2016, by and between Andre Walker and the Company.	10-Q	8/8/2016	10.13	
10.18(a)	Amended and Restated Stockholders' Agreement, dated February 8, 2013, by and among the Company and the stockholders listed therein.	S-1	10/03/2014	10.15(a)	
10.18(b)	Amendment to Amended and Restated Stockholders' Agreement, dated March 5, 2013, by and among the Company and the stockholders listed therein.	S-1	10/03/2014	10.15(b)	
10.18(c)	Second Amendment to Amended and Restated Stockholders' Agreement, dated October 24, 2014, by and among the Company and the investors listed therein.	S-1/A	11/04/14	10.18(c)	
10.19#	Nevro Corp. Non-Employee Director Compensation Program.	S-1/A	10/10/2014	10.19	
10.20(a)#	Form of Amended and Restated Change in Control Severance Agreement for certain executive officers.	10-Q	5/9/2016	10.4	
10.20(b)#	Amended and Restated Change in Control Severance Agreement, dated as of May 5, 2016, by and between Andrew Galligan and the Company.	10-Q	8/8/2016	10.14	

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference Form</b>	<b>Date</b>	<b>Number</b>	<b>Filed Herewith</b>
10.20(c)#	Amended and Restated Change in Control Severance Agreement, dated as of May 5, 2016, by and between Doug Alleavitch and the Company.	10-Q	8/8/2016	10.15	
10.20(d)#	Amended and Restated Change in Control Severance Agreement, dated as of May 5, 2016, by and between Andre Walker and the Company.	10-Q	8/8/2016	10.16	
10.20(e)#	Amended and Restated Change in Control Severance Agreement, dated as of May 5, 2016, by and between Michael Enxing and the Company.	10-Q	11/7/2016	10.2	
10.21(a)	Term Loan Agreement, dated October 24, 2014, by and between the Company and Capital Royalty Partners II L.P.	S-1/A	10/27/2014	10.21	
10.21(b)	First Amendment to Term Loan Agreement, dated as of March 9, 2015, by and between the Company and Capital Royalty Partners II L.P.	10-K	3/18/2015	10.21(b)	
10.21(c)	Second Amendment to Term Loan Agreement, dated as of June 29, 2015, by and between the Company and Capital Royalty Partners II L.P.	10-Q	8/6/2015	10.2	
10.22(a)†	Supply Agreement, dated March 13, 2015, by and between the Company and Centro de Construccion de Cardioestimuladores del Uruguay S.A.	10-K/A	5/29/2015	10.22	
10.22(b)*	Supply Agreement, effective as of November 11, 2016, by and between the Company and Centro de Construccion de Cardioestimuladores del Uruguay S.A.				X
10.23(a)	Lease Agreement, dated as of March 5, 2015, by and between the Company and Westport Office Park, LLC.	10-K	3/18/2015	10.23	
10.23(b)	First Amendment to Lease, effective as of December 9, 2016, by and between the Company and Westport Office Park, LLC				X
10.24#	Offer Letter, dated as of March 30, 2015, by and between the Company and Doug Alleavitch	8-K	4/9/2015	10.1	
10.25+*	Manufacturing and Supply Agreement, dated as of December 18, 2015, by and between the Company and Vention Medical Design and Development, Inc.	10-K	2/29/2016	10.25	
10.26	Letter Agreement, dated June 7, 2016, between Morgan Stanley & Co. International plc and the Company, regarding the Base Warrants.	8-K	6/13/2016	10.1	
10.27	Letter Agreement, dated June 7, 2016, between Bank of America, N.A. and the Company, regarding the Base Warrants.	8-K	6/13/2016	10.2	

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference Form</b>	<b>Date</b>	<b>Number</b>	<b>Filed Herewith</b>
10.28	Letter Agreement, dated June 7, 2016, between Goldman, Sachs & Co. and the Company, regarding the Base Warrants.	8-K	6/13/2016	10.3	
10.29	Letter Agreement, dated June 7, 2016, between Morgan Stanley & Co. International plc and the Company, regarding the Base Call Option Transaction.	8-K	6/13/2016	10.4	
10.30	Letter Agreement, dated June 7, 2016, between Bank of America, N.A. and the Company, regarding the Base Call Option Transaction.	8-K	6/13/2016	10.5	
10.31	Letter Agreement, dated June 7, 2016, between Goldman, Sachs & Co. and the Company, regarding the Base Call Option Transaction.	8-K	6/13/2016	10.6	
10.32	Letter Agreement, dated June 8, 2016, between Morgan Stanley & Co. International plc and the Company, regarding the Additional Warrants.	8-K	6/13/2016	10.7	
10.33	Letter Agreement, dated June 8, 2016, between Bank of America, N.A. and the Company, regarding the Additional Warrants.	8-K	6/13/2016	10.8	
10.34	Letter Agreement, dated June 8, 2016, between Goldman, Sachs & Co. and the Company, regarding the Additional Warrants.	8-K	6/13/2016	10.9	
10.35	Letter Agreement, dated June 8, 2016, between Morgan Stanley & Co. International plc and the Company, regarding the Additional Call Option Transaction.	8-K	6/13/2016	10.10	
10.36	Letter Agreement, dated June 8, 2016, between Bank of America, N.A. and the Company, regarding the Additional Call Option Transaction.	8-K	6/13/2016	10.11	
10.37	Letter Agreement, dated June 8, 2016, between Goldman, Sachs & Co. and the Company, regarding the Additional Call Option Transaction.	8-K	6/13/2016	10.12	
21.1	List of Subsidiaries.				X
23.1	Consent of Independent Registered Public Accounting Firm.				X
24.1	Power of Attorney (included on signature page to this Annual Report on Form 10-K).				X
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section				X

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference Form</b>	<b>Date</b>	<b>Number</b>	<b>Filed Herewith</b>
	1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance.				X
101.SCH	XBRL Taxonomy Extension Schema.				X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.				X
101.LAB	XBRL Taxonomy Extension Label Linkbase.				X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.				X
101.DEF	XBRL Taxonomy Extension Definition Linkbase.				X

† Confidential treatment has been granted for certain information contained in this exhibit. Such information has been omitted and filed separately with the Securities and Exchange Commission.

# Indicates management contract or compensatory plan.

\* Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment and this exhibit has been filed separately with the Securities and Exchange Commission.

\*\* The certification attached as Exhibit 32.1 that accompanies this Form 10-K is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Nevro Corp. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Form 10-K, irrespective of any general incorporation language contained in such filing.

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

CONFIDENTIAL

## SUPPLY AGREEMENT

This SUPPLY AGREEMENT (the “**Agreement**”) is effective as of November 11, 2016 (the “**Effective Date**”), by and between **CENTRO DE CONSTRUCCION DE CARDIOESTIMULADORES DEL URUGUAY S.A.**, a Uruguay corporation having its principal place of business at General Paz 1371, Montevideo, Uruguay, CP 11400 (“**CCC**”), and **NEVRO CORP.**, a Delaware corporation having its principal place of business at 1800 Bridge Parkway, Redwood, City, California 94065 (“**Nevro**”).

### 1. DEFINITIONS

Defined terms used in this Agreement shall have the meanings as defined in the text of the Agreement or as set forth in this Article 1:

**1.1 “Affiliate”** shall mean any other entity that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with the first entity, including, but not limited to, other entities which become Affiliates after the date of execution of this Agreement. “Control” of an entity shall mean ownership of 50 percent or more of the total voting securities or other voting interests of the entity.

**1.2 “Applicable Law”** shall mean all laws, statutes, ordinances, codes, rules, and regulations that have been enacted by a Governmental Authority and are in force as of the Effective Date or come into force during the Term, in each case to the extent applicable to the performance by the parties of their respective obligations under this Agreement.

**1.3 “Approved Manufacturer List”** shall mean the approved list of vendors in the Specifications for the supply of Components.

**1.4 “Bill of Materials”** shall mean the listing or reference for the Components included in or required for the manufacture of each Product in accordance with the Specifications, which Bill of Materials is set forth on Exhibit F (as such exhibit is updated in accordance with Section 4.1).

**1.5 “Change of Control”** with respect to a Party means a transaction pursuant to which an entity acquires all or substantially all of the assets of such Party related to this Agreement or acquires “control” of such Party, where “control” means: (i) ownership, directly or indirectly, of more than (a) fifty percent (50%) of the outstanding voting shares of such Party, or (b) fifty percent (50%) of the of the total combined voting power entitled to elect or appoint directors or persons performing similar functions for such Party, or (ii) the power to direct or cause the direction of the management and policies of such Party by contract or otherwise.

**1.6 “Components”** shall mean the parts, materials and supplies included in or required for each Product as stipulated in the Bill of Materials.

**1.7 “Confidential Information”** shall mean any and all confidential or proprietary business, technical, scientific and other know-how and information, including, but not limited to,



trade secrets, knowledge, technology, means, methods, processes, practices, formulas, instructions, skills, techniques, procedures, specifications, data, results and other material, manufacturing procedures, test procedures, and any tangible embodiments of any of the foregoing, and any scientific, manufacturing, marketing and business plans, any financial and personnel matters relating to a party or its present or future products, sales, suppliers, customers, employees, investors or business, that have been disclosed by or on behalf of such party to the other party in connection with this Agreement. The terms of this Agreement shall be deemed the Confidential Information of both parties.

**1.8 “Consigned Components”** shall mean any Components designated as “Consigned Components” on the Bill of Materials.

**1.9 “Contract Year”** means each calendar year during the Term, except that Contract Year 1 commences on the Effective Date and ends on December 31, 2016 and Contract Year 11 commences on January 1, 2026 and ends on the date that is ten (10) years after the Effective Date.

**1.10 “Defect” or “Defective”** shall mean a defect caused by a breach of a warranty in Section 10.3.

**1.11 “Epidemic Failure”** has the meaning specified in Section 8.5.

**1.12 “Equipment”** shall mean any and all equipment installed at the Manufacturing Facility and used to manufacture the Products.

**1.13 “FDA”** means the United States Food and Drug Administration, or any successor entity thereto.

**1.14 “Forecast”** has the meaning specified in Section 2.1.

**1.15 “Good Manufacturing Practice” or “GMP”** shall mean compliance with the most recent version of ISO13485 and the Quality System Regulations 21 CFR Part 820.

**1.16 “Governmental Authority”** shall mean any supranational, national, regional, state or local government, court, governmental agency, authority, board, bureau, instrumentality, or regulatory body, including the FDA.

**1.17 “CCC IP”** shall mean the Intellectual Property Rights owned or otherwise controlled by CCC necessary for the manufacture of Products for Nevro pursuant to this Agreement.

**1.18 “Intellectual Property Right”** means any patent or patent application, including with respect to patents rights granted upon any reissue, divisional, continuation or continuation-in-part applications, utility models issued or pending, registered and unregistered design rights, copyright (including the copyright on software in any code), trademark, trade dress, trade secret, know-how, or any other intellectual property right or proprietary right, whether registered or unregistered, and whether now known or hereafter recognized in any jurisdiction.

**1.19 “Inventory”** shall mean WIP (i.e., Components contained in partly finished Products that are in various stages of the manufacturing process), finished Products (including, but not limited to, Safety Stock), Product-specific, non-returnable purchased Components and non-cancelable purchase orders for Components outstanding with CCC’s suppliers, consistent with Section 2.3(c).

**1.20 “Last Time Buy”** shall mean Nevro’s option to order any quantities of Products totaling up to the quantities equal to [\*\*\*] ([\*\*\*)] times the volumes of such Products contained in the last received [\*\*\*] ([\*\*\*)] month Forecast, subject to the requirements set forth in this Agreement.

**1.21 “Manufacturing Facility”** shall mean the CCC facility located at General Paz 1371, 11400 Montevideo, Uruguay, and any other facility approved by Nevro in accordance with Section 5.2(b) and that has been Qualified to manufacture the Products.

**1.22 “NDS Components”** shall mean all Components purchased by CCC from a Nevro Dictated Subcontractor.

**1.23 “Nevro Dictated Subcontractor”** shall mean the Subcontractors identified in Attachment 1 of the Quality Agreement as “Nevro Dictated Suppliers.”

**1.24 “Nevro IP”** shall mean the Intellectual Property Rights owned or otherwise controlled by Nevro, solely to the extent necessary for the manufacture of Products for Nevro pursuant to this Agreement.

**1.25 “Nevro Property”** shall mean (a) any tooling, equipment or software provided by Nevro, and (b) tooling or equipment developed or procured by CCC at Nevro’s expense but, with respect to tooling or equipment developed or procured by CCC at Nevro’s expense after the Effective Date, only if it has been invoiced separately from the purchase price of the Products, and (c) CCC’s Safety Stock upon Nevro’s payment of the applicable purchase price therefor.

**1.26 “Nevro System”** shall mean an implantable system intended to be completely introduced to a living body by surgical intervention to apply electrical stimulation for treatment of chronic pain.

**1.27 “Products”** shall mean the products that are listed in Exhibit A attached hereto, as well as any follow-on, modified, or improved versions of such products, or additional products, that the parties may mutually agree in writing to be subject to this Agreement.

**1.28 “Purchase Order”** shall mean a written purchase order issued by Nevro for Products.

**1.29 “Qualified”** shall mean that the Manufacturing Facility and Equipment have been fully qualified by CCC to supply Nevro with such Products meeting the Specifications and requirements of the applicable Governmental Authorities. To remain Qualified, the Manufacturing Facility and Equipment must (i) be maintained as specified in the Quality Agreement and to at least the same conditions as when initially Qualified; and (ii) continue to

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

comply with all applicable requirements of any Governmental Authorities; in each case without any unapproved changes.

**1.30 “Quality Agreement”** shall mean the quality agreement executed by the parties and dated July 13, 2016, and any amendments thereto executed by the parties.

**1.31 “Safety Stock”** shall mean the level of finished Products to be maintained by CCC, in excess of the amount required to meet Nevro’s Purchase Orders, which level is specified in Section 2.2 below.

**1.32 “Shipment Date”** shall mean the shipment date from the Facility as specified in a Purchase Order that is consistent with the Volume Acceptance Range and the applicable lead times for such Products as set forth on Exhibit A, or another date mutually agreed by the Parties in writing.

**1.33 “Specifications”** shall mean Nevro’s written specifications for the Products, including the current revision number, Approved Manufacturer List, Bills of Materials, manufacturing procedures, schematics, testing procedures, drawings and documentation, including the specifications referenced on Exhibit B.

**1.34 “Subcontractor”** shall mean any component supplier, material supplier, service provider, consultant, contract laboratory, contractor, or other third party supplier who provides to CCC any product(s) or services relating to, or that could otherwise reasonably be expected to have any effect on, the Product, including any component or service related to the warehousing, storage or preparation of the Product.

**1.35 “Tested NDS Component”** has the meaning specified in Section 3.6(d).

**1.36 “Validation Documentation”** means the collection of all documentation demonstrating that Product equivalence and all applicable regulatory requirements, and any other requirements agreed by the parties, have been achieved with respect to a proposed new Manufacturing Facility, including master validation plans, qualification documentation (including operational qualification documentation), performance qualification documentation (including protocols and reports), line validation/product performance qualification protocols and reports, and process failure modes and effects analysis documentation. The Validation Documentation is intended to be delivered as a package and considered for approval as such.

**1.37 “Volume Acceptance Range”** has the meaning specified in Section 2.5.

**1.38 “Warranty Period”** shall mean, for each Product, the period of eighteen (18) months immediately following the date the Product is received by Nevro.

## **2. PRODUCT PURCHASE**

**2.1 Forecasts.** Following execution of this Agreement, and on a monthly basis thereafter, Nevro will provide CCC with a [\*\*\*] ([\*\*\*)] month rolling forecast of Nevro’s expected monthly order volume for each of the Products for the forthcoming [\*\*\*] ([\*\*\*)] month

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period (each, a “**Forecast**”). Nevro agrees to update the Forecast monthly. The first [\*\*\*] ([\*\*\*) months of the Forecast will be considered binding (provided for clarity that no forecast with respect to the IPG 2000 shall be binding unless and until the IPG 2000 has been approved by Nevro in accordance with Exhibit A), and the last [\*\*\*] ([\*\*\*) months of the Forecast will be considered non-binding. If Nevro’s Purchase Orders for the [\*\*\*] ([\*\*\*) month period covered by a binding Forecast are for a quantity less than the volume of Products specified in the Forecast for such [\*\*\*] ([\*\*\*) month period (the “**Shortfall**”), Nevro will revise such Purchase Orders or submit additional Purchase Orders.

**2.2 In-Stock Product Minimum.** CCC agrees to carry at its own cost Safety Stock levels of each Product to accommodate Product purchases by Nevro, as calculated based on the applicable Forecast for the period and in an amount equal to [\*\*\*] ([\*\*\*) [\*\*\*] worth of expected Product orders in the applicable Forecast. CCC agrees to fulfill Purchase Orders first from such Safety Stock inventory, and to manufacture sufficient units of the Products to maintain the forecasted levels in the Safety Stock inventory. The Safety Stock inventory will be available to ship to Nevro within [\*\*\*] ([\*\*\*) [\*\*\*] of Nevro placing a Purchase Order. If the Safety Stock inventory drops below the [\*\*\*] ([\*\*\*) [\*\*\*] level at any time, CCC will promptly replenish it within [\*\*\*] ([\*\*\*) [\*\*\*]. Nevro is responsible in accordance with Section 11.4 for such Inventory that was reasonably and customarily necessary to sustain Safety Stock levels. The parties may agree from time to time to alter the number of Product units for each Product that need to be maintained in the Safety Stock inventory.

### **2.3 Component Supply.**

(a) CCC shall maintain and manage adequate Component inventory in order to meet Nevro’s Purchase Orders. CCC shall immediately notify Nevro in the event of any potential material delays or shortages that may impact CCC’s delivery of Products in accordance with the applicable Forecast or Purchase Orders.

(b) CCC may order a reasonable volume of Components above the quantities required to satisfy Purchase Orders in order to meet Component minimum order quantities imposed by Component suppliers.

(c) Subject to the remainder of this Section 2.3(c), Nevro shall be responsible for the cost/price of finished Products and Safety Stock (as such prices are set forth on Exhibit A) and the cost of other types of Inventory purchased or manufactured by CCC under the terms of this Agreement which becomes obsolete due to reduction in demand (i.e., which were reasonably ordered based on a Forecast including but not limited to the Product requirements contained in the binding portion of the Forecast and the Components ordered that were ordered consistent with the non-binding portion of the Forecast due to long Component lead times) or due to Change Orders (if such finished Products, Safety Stock and other Inventory were identified by either party as becoming obsolete in such mutually agreed Change Order), provided that CCC has made a reasonable effort to return such Inventory or cancel the applicable orders from Subcontractors (except that this obligation on CCC to return or cancel will not apply in the case of finished Products, Safety Stock, and WIP). In the event of such obsolescence, CCC shall notify Nevro in writing of the applicable Inventory, which notice shall explain the reason such

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Inventory became obsolete and shall include invoices and other documentation that show the cost to CCC of such Inventory.

(d) If Nevro engages in a process pursuant to which Nevro accepts bids from third parties to supply Components, Nevro shall (i) notify CCC in writing of Nevro's intent to engage a third party with respect to such Components within a reasonable period of time prior to the scheduled commencement of such process, (ii) provide CCC with a general written description of Nevro's requirements with respect to such Components, and (iii) provide CCC with an opportunity to submit a bid to provide such Components to Nevro. Nevro shall discuss any such submitted bid with CCC in good faith. If Nevro does not accept CCC's bid in any such process, Nevro shall inform CCC in reasonable detail of the reasons for such non-acceptance.

**2.4 Purchase Orders.** During the Term of this Agreement, Nevro shall issue Purchase Order(s) for the order volume of each of the Products specified in the binding [\*\*\*] ([\*\*\*)] month portion of each Forecast. Each Purchase Order shall include at least the following: (a) Nevro's Purchase Order number; (b) identification of the Products ordered by Nevro; (c) the Shipment Date; and (d) any shipping instructions, including preferred carrier and shipping destination. Nevro and CCC agree that a Purchase Order sent to CCC by confirmed facsimile or electronic transmission shall constitute a writing for all legal purposes. In addition, the parties may communicate regarding Purchase Orders via mutually agreeable electronic means, such as confirmed electronic mail.

**2.5 Purchase Order Acceptance.** CCC will accept all Purchase Orders that have Shipment Dates that conform to Section 2.4 and that order volumes of Products that are within [\*\*\*] percent ([\*\*\*)%) and [\*\*\*] percent ([\*\*\*)%) of the Forecast for the applicable period (the "**Volume Acceptance Range**"). CCC will, within five (5) business days after receipt of a Purchase Order, notify Nevro of acceptance of such Purchase Order or will indicate the Shipment Dates that do not comply with Section 2.4 or the order volumes that are not within the Volume Acceptance Range. Nothing contained in any Nevro Purchase Order or CCC Purchase Order acknowledgement shall modify the terms of purchase or add any additional or different terms or conditions except as otherwise specifically agreed in writing by the parties and any pre-printed or similar terms or conditions that may be incorporated in such Nevro Purchase Order or CCC Purchase Order acknowledgement are hereby rejected.

**2.6 Revision of Purchase Orders.** In the event that Nevro cancels a Purchase Order inside the standard lead time for a Product as set forth on Exhibit A, then Nevro will be responsible for all finished Product, WIP, raw material, components and any non-cancelable purchase orders outstanding with suppliers directly related to the cancelled Purchase Order. In the event that Nevro cancels a Purchase Order outside of the standard lead time for a Product, Nevro and CCC will negotiate the resulting costs. Nevro may change an accepted Purchase Order only if agreed upon in writing by CCC, but CCC shall use its commercially reasonable efforts to accommodate increases, decreases or reschedules of the quantities in a Purchase Order requested by Nevro. Any additional costs of such change approved by Nevro prior to the implementation of such change will be borne by Nevro.

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**2.7 Minimum Purchase Thresholds.** During the Term, and subject to the terms and conditions of this Agreement, Nevro will satisfy the minimum purchase thresholds as defined in Exhibit A (such obligations, the “**Minimum Purchase Thresholds**”).

**2.8 Reduction of Minimum Purchase Thresholds.** If during the Term of this Agreement with respect to any Product, for any reason: (a) CCC fails to supply non-Defective Products in accordance with this Agreement with respect to at least [\*\*\*] percent ([\*\*\*]%) of the amount of the Product scheduled on a Purchase Order accepted in accordance with Section 2.5 (a “**Purchase Order Failure**”); or (b) [\*\*\*] percent ([\*\*\*]%) or more of a shipment of the Product delivered by CCC does not meet the applicable Specifications (a “**Defect Failure**”); or (c) such Product is subject to an Epidemic Failure; then (i) Nevro may require CCC to increase Safety Stock inventory specified in Section 2.2 up to [\*\*\*] ([\*\*\*]) [\*\*\*] worth of expected Product orders, and (ii) the Minimum Purchase Thresholds for the year or years in which such events occur will be [\*\*\*] in connection with a Purchase Order Failure or the [\*\*\*] affected by a Defect Failure or Epidemic Failure. In addition, in the case of an extended interruption of supply of sixty (60) consecutive days or more, CCC and Nevro agree to negotiate in good faith further reductions in the Minimum Purchase Thresholds until such time as CCC is in a position to satisfy future Purchase Orders.

### 3. SUPPLY

**3.1 Delivery.** Delivery of all Products shall be made EXW (Incoterms 2010) Manufacturing Facility. Title to and risk of loss for the Products shall pass to Nevro at the delivery point. Nevro shall be responsible for paying freight, handling, shipping and insurance charges that it approves in writing in advance for shipments to destinations requested by Nevro. CCC shall deliver the Products to Nevro on or before the applicable Shipment Date and in accordance with the shipping instructions in the applicable Purchase Order, including the ship-to address, carrier and means of transportation or routing. Nevro may return any unauthorized over-shipment or any portions thereof, at CCC’s expense and without charge to Nevro. If Nevro fails to provide shipping instructions, CCC will make the selection of carrier on a commercially reasonable basis.

**3.2 Notification of Delay.** Without limiting Nevro’s rights and remedies under this Agreement, if circumstances arise that prevent CCC from making the Products available on the Shipment Date, CCC shall (i) immediately notify Nevro of the nature of the problem, the methods taken to overcome the problem and the estimated time of delay, and (ii) expedite shipment of such Products when the problem is overcome.

**3.3 Product Quality.** CCC shall test and inspect all Products before shipment for compliance with the Specifications, all Applicable Laws, and the Quality Agreement and shall provide to Nevro written certification that each Product shipped was manufactured in compliance with the foregoing. In addition, CCC shall comply with its obligations under the Quality Agreement and Good Manufacturing Practice with respect to all Manufacturing Facilities and the manufacture of the Products. Upon receipt of each shipment of Products, Nevro, or a third party designated by Nevro, may test and inspect such Products for compliance with the foregoing.

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**3.4 Rejection.** Nevro must conduct any incoming inspection tests not later than 45 days from the date of its receipt of the Products. Products not rejected by Nevro by written notice to CCC within such period will be deemed accepted, with the exception of Products with defects that are not readily observable by Nevro. Any Defective Products may be returned to CCC in accordance with Section 10.3(b). For clarity, nothing in this Section 3.4 modifies or otherwise affects Nevro's rights and remedies under Section 10 with respect to any Products.

**3.5 Consigned Components.**

(a) In the event that Nevro supplies certain Consigned Components to CCC, such Consigned Components shall be delivered to CCC in sufficient time and in sufficient quantities based on Purchase Orders and in accordance with this Agreement, including normal yield levels, to allow CCC to meet scheduled Shipment Dates for the applicable Products. All Consigned Components shall be in good condition and in good working order. Nevro assumes complete liability for the quality of all Consigned Components and CCC shall not be responsible for any Defects or deficiencies therein. CCC shall, upon receipt of the Consigned Components, perform all necessary inspections of the Consigned Components, in accordance with its standard procedures and shall notify Nevro in writing, not later than twenty (20) Days from the date of receipt of the Consigned Components, of any Defects found or of any discrepancy in quantities. CCC reserves the right, after receipt of the Consigned Components, to timely inform Nevro of additional Defects which may be discovered or revealed by further inspection by or through the manufacturing process that could not be discovered at incoming inspection by CCC.

(b) CCC will provide Nevro with a written statement of the Consigned Components used by CCC at the end of each calendar month.

**3.6 Subcontractors.**

(a) **Use of Subcontractors.** CCC will not use any Affiliate or Subcontractor for any supply of Components or services related to the Product without the prior written consent of Nevro. If Nevro consents to the use of an Affiliate or Subcontractor, Nevro may specify change control procedures applicable to the provision of services by such Affiliate or Subcontractor in addition to the terms of Section 5.

(b) **Verification of Subcontractors.** Except for Nevro Dictated Subcontractors, CCC shall establish and maintain written requirements, including quality requirements, for evaluating, selecting, and assessing any Subcontractors and shall ensure that each Subcontractor is qualified and able to provide the product(s) or service(s) (including Components) required to perform its required tasks or services in accordance with the Specifications, all Applicable Laws, and this Agreement. CCC shall establish and maintain appropriate quality requirements to ensure the performance of Subcontractors (other than Nevro Dictated Subcontractors) in accordance with the terms and conditions of this Agreement, Applicable Laws, CCC's standard operating procedures, and, if any, Nevro's written instructions. CCC shall use commercially reasonable efforts to ensure Nevro has the right to audit CCC's Subcontractors to assure compliance with this Agreement and any regulatory requirements, and CCC shall include such right for Nevro to conduct such audits (including the right to access facilities and records) in any applicable contract CCC has with a Subcontractor.

(c) **Liability for Subcontractors.** CCC shall be responsible for keeping all Subcontractors adequately informed and ensuring that the correct design, production, or process controls are applied to Subcontractor as applicable to ensure that the Product, including any Component therein, conforms to the Specifications. With the exception of Nevro Dictated Subcontractors, CCC is responsible for the acts and omissions of any Subcontractor as if those acts and omissions had been carried out by CCC.

(d) **Nevro Dictated Subcontractors.** In the event that a Nevro Dictated Subcontractor supplies NDS Components to CCC, CCC shall (i) conduct inspection and acceptance testing on such NDS Components in accordance with section 7.16 and Attachment 2 of the Quality Agreement (“**NDS Component Testing**”), (ii) use in the manufacture of Products only NDS Components that have passed the properly conducted NDS Component Testing (each, a “**Tested NDS Component**”), (iii) notify Nevro of any NDS Components that fail the NDS Component Testing within thirty (30) days after such failure, (iv) use commercially reasonable efforts to cause such Nevro Dictated Subcontractor to deliver such NDS Components in sufficient time and in sufficient quantities based on Purchase Orders and in accordance with this Agreement to allow CCC to meet scheduled Shipment Dates for the applicable Products, and (v) notify Nevro in writing within five (5) business days of any shipment delay, NDS Component quality issue or other business or performance concern with respect to any Nevro Dictated Subcontractor (each, an “**NDS Component Subcontractor Issue**”), which writing shall describe in detail the NDS Component Subcontractor Issue and any actions CCC has taken with respect to such issue. Subject to and without limiting CCC’s obligations set forth immediately above, (i) Nevro will be responsible for qualifying, monitoring, and managing all Nevro Dictated Subcontractors in accordance with Nevro’s internal procedures, (ii) except as set forth herein, CCC shall not be responsible for the quality of NDS Components that have passed properly conducted NDS Component Testing in accordance with the Quality Agreement and CCC shall not be responsible for costs related to or arising from defects or deficiencies in any NDS Components that have passed properly conducted NDS Component Testing in accordance with the Quality Agreement, including, without limitation, costs and expenses related to the repair or replacement (including shipping and handling expenses) of any Defective Products that are Defective due to such defective or deficient NDS Components that have passed properly conducted NDS Component Testing in accordance with the Quality Agreement, provided that in each case that any such defect or deficiency could not have reasonably been discovered during NDS Component Testing and was not caused by CCC in its handling of such NDS Component or during the manufacturing process, (iii) without limiting CCC’s obligation to properly test NDS Components, CCC reserves the right, after receipt of the NDS Components, to timely inform Nevro of additional defects which may be discovered or revealed by further inspection by or through the manufacturing process that could not be reasonably discovered during NDS Component Testing, (iv) upon receipt of a notice of an NDS Component Subcontractor Issue, Nevro will work with CCC and use reasonable efforts to cause such Nevro Dictated Subcontractor to deliver non-defective NDS Components in sufficient time and in sufficient quantities based on Purchase Orders and in accordance with this Agreement, including normal yield levels, to allow CCC to meet scheduled Shipment Dates for the applicable Products and (v) failure or delay of CCC to perform fully any of its obligations under this Agreement caused by defects or deficiencies in any NDS Component that has passed properly conducted NDS Component Testing (which defects or deficiencies could not have reasonably been discovered during NDS Component Testing and were not caused by CCC in its handling of such NDS



Component or during the manufacturing process) or the non-performance or delay of a Nevro Dictated Subcontractor in delivering non-defective NDS Components will be deemed not to be a breach of this Agreement if such NDS Components or the Nevro Dictated Subcontractor's non-performance or delay were the primary cause of CCC's failure or delay to fully perform such obligations.

#### **4. PRICE; PAYMENT**

**4.1 Product Purchase Price.** Nevro shall pay to CCC the prices for the Products set forth in Exhibit A attached hereto. Notwithstanding the preceding sentence, (a) subject to clause (b) of this Section 4.1, if there is a net increase or decrease of \$[\*\*\*] or more in the [\*\*\*] a Product ([\*\*\*]), which increase or decrease shall be [\*\*\*], then a corresponding change equal to [\*\*\*] percent ([\*\*\*]%) of the documented amount of such increase or decrease will be made to the price of the applicable Product. The parties shall meet at least twice per Contract Year to calculate the amount of any such increase or decrease and, if any increase or decrease in the Product price is made as a result of any such meeting, the parties shall update the [\*\*\*] after such meeting to reflect the change in the [\*\*\*] such increase or decrease. CCC shall provide to Nevro documentation [\*\*\*] such increase or decrease. All Purchase Orders for Products issued by Nevro after the parties' agreement regarding the amount of such increase or decrease shall reflect the adjusted Product price. For clarity, Nevro shall [\*\*\*] with respect to [\*\*\*].

**4.2 Invoices; Payments.** CCC shall invoice Nevro for the Products on or after the date on which CCC ships the Product to Nevro. All such invoices shall be submitted by CCC to Nevro via email. Nevro shall pay all undisputed amounts within thirty (30) days following Nevro's receipt of CCC's invoice. All payments under this Agreement shall be in U.S. dollars. All amounts referenced in or to be paid under this Agreement, exclude taxes, customs, shipping, insurance and duties. CCC agrees to notify Nevro of any past due amounts and reserves the right to charge interest on any such undisputed amounts which remain past due for ten (10) days after such notification at the rate of 1.5% per month or the highest rate allowed by law, whichever is lower. In addition to all other available rights and remedies on default, CCC may refuse orders, require advance payment in full, ship C.O.D. or halt shipments if all undisputed prior invoices are not paid in full within 10 days after CCC notifies Nevro in writing of the applicable past due amounts under such invoices.

**4.3 Taxes.** Nevro agrees to pay any applicable sales, use, excise or similar taxes, including value added taxes and customs duties, itemized on the applicable invoice and arising from purchases made by Nevro under this Agreement, but not any taxes based on CCC's net income.

**4.4 Cost Reduction Initiatives.** CCC shall collaborate with Nevro to make proposals that, if implemented, would deliver a reduction in the cost of the Product, including by reducing Component and manufacturing costs and improving Product yields. CCC shall provide to Nevro a plan detailing cost reduction efforts that CCC proposes to undertake to achieve the cost reductions, which must be approved by Nevro, which approval may be provided or withheld in Nevro's sole discretion. The parties shall meet at least twice per Contract Year to review the

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cost reduction efforts. Nevro and CCC will mutually agree upon the business case analysis, including expenses, cost savings and implementation schedule. Cost reduction efforts or proposals shall not compromise quality or reliability, and CCC shall comply with Product Specifications and Good Manufacturing Practices. If CCC and Nevro share the expenses associated with the implementation, cost savings shall be split [\*\*\*] percent ([\*\*\*]%) to Nevro and [\*\*\*] percent ([\*\*\*]%) to CCC. If either party pays the full cost of such implementation (as such payment responsibility is specified in the approval of such implementation), then that party will receive [\*\*\*] percent ([\*\*\*]%) of the demonstrated cost reduction. For avoidance of doubt, for design changes in a Product that are initiated by Nevro and for which the implementation costs are paid by Nevro, Nevro will receive [\*\*\*]% of the demonstrated cost reduction upon implementation. CCC shall give Nevro notice of the implementation of the foregoing cost reductions as soon as practicable, but in any event within thirty (30) days of the accomplished reduction. After any such implementation, all invoices shall reflect the applicable reduced pricing and the parties shall work to update Exhibit A accordingly.

## 5. PROCESS CHANGE NOTIFICATION

**5.1 Specification Change Process.** If, during the Term of this Agreement, Nevro wishes to engage CCC with respect to a change to any Specifications, including critical raw material specifications and sourcing, for any Product then being manufactured by CCC, it shall give CCC written notice of such request (a “**Change Order**”). CCC shall respond to such Change Order, including any pricing change driven by such Change Order (provided that any such pricing change shall be consistent with [\*\*\*]), and the parties shall thereupon negotiate in good faith for a written change to such Specifications, incorporating the modifications to the Specifications and any associated regulatory approvals and facility qualifications required as a result. CCC may not reject reasonable Change Orders requested by Nevro and CCC shall promptly implement any Change Orders. Except as specified in this Section 5.1, CCC may not change the manufacturing process of the Products except in accordance with the Quality Agreement. Any Inventory that will be rendered unusable as a result of a Change Order shall be identified in such Change Order and CCC shall provide documentation reasonably supporting the unusability of such Inventory. [\*\*\*]

### 5.2 Notification of Changes.

(a) **Equipment Change.** CCC shall notify Nevro of all proposed changes to any Equipment that may affect the Products or any certification, approval, or qualification by any Governmental Authority. Any such notice shall be provided in accordance with the Quality Agreement.

(b) **Manufacturing Facility Change.** Two options exist for the relocation of the manufacturing facility as described in clauses (i) and (ii) below.

(i) If CCC desires to relocate the manufacturing of the Product from the Manufacturing Facility to the location specified on Exhibit E, CCC shall provide written notice to Nevro and shall provide an updated schedule for such relocation and such other

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

information reasonably required by Nevro with respect to such proposed new location. Following the notice, CCC shall deliver to Nevro qualification parts manufactured at such proposed new location and the Validation Documentation with respect to such proposed new location for Nevro's review and approval (which approval shall not be unreasonably withheld). CCC shall not ship any Product manufactured at the new location until CCC's receipt of a written notice from Nevro that it is ready to receive Product manufactured at the new facility (the "**Facility Approval Notice**"). CCC will use reasonable commercial efforts to qualify and otherwise achieve all regulatory approvals necessary for the relocation and the manufacture of Products at the new location as soon as possible, excluding any such approvals with respect to the Product that Nevro itself is legally required to obtain ("**Nevro Approvals**"). Nevro will use reasonable commercial efforts to achieve the Nevro Approvals as soon as possible after Nevro's approval of the Validation Documentation. Nevro shall provide reasonable cooperation to CCC in connection with the qualification of such new facility, and CCC shall provide reasonable cooperation to Nevro in connection with obtaining the Nevro Approvals. If Nevro does not issue the Facility Approval Notice within [\*\*\*] ([\*\*\*)] days after all regulatory approvals (including Nevro Approvals) necessary to manufacture the Product at the new location have been obtained and CCC has reasonably demonstrated that it can manufacture Products in accordance with this Agreement at such new location, then all prices for the Products will automatically [\*\*\*] ([\*\*\*)%] unless and until Nevro issues the Facility Approval Notice. Nevro understands and agrees that the relocation of the Manufacturing Facility located at General Paz 1371, 11400 Montevideo, Uruguay is accounted for in the pricing in Exhibit A, and therefore, [\*\*\*] will be made as result of such relocation. Unless agreed upon by the parties, each party will be responsible for their direct costs associated with the move, including all costs related to internal Product and process validation, equipment purchase and implementation and integration costs. Notwithstanding the foregoing, CCC will be responsible for (i) the third party expenses [\*\*\*] with the [\*\*\*] for such relocation (ii) the cost of [\*\*\*] required in connection with [\*\*\*] required in connection with such relocation.

(ii) Based on business requirements and agreed upon by both parties in writing, the manufacturing of a Product could be relocated to a CCC site located in the United States. All requirements identified in Section 5.2(b)(i) above must be successfully completed before such Product can be shipped from the new location. The NRE cost associated with this facility relocation will be negotiated in good faith between the parties prior to the time the facility relocation is to be executed. The unit price for the Products manufactured at such new facility will be in accordance with Exhibit A, unless otherwise agreed to by the parties.

(c) **Change Approval.** CCC shall comply with the Quality Agreement for the implementation of any changes to any process, system, or activity relating to the Product. .

## 6. PERSONNEL; FACILITIES; EQUIPMENT; NEVRO PROPERTY

**6.1 Personnel.** CCC shall ensure that all of its personnel engaged in the storage, handling, packaging, distribution, or other processing of the Products shall have the education, training and experience reasonably sufficient to perform their assigned functions in accordance with Applicable Laws.

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**6.2 Facilities.** CCC shall ensure that the Manufacturing Facility shall be orderly and maintains (i) reasonably adequate lighting, ventilation and water supply for the activities relating to the Product, (ii) space for performing the activities required under this Agreement, and (iii) the ability to reasonably separate discrete operations or processes relating to the Product in order to prevent mixing, product errors or other contamination of Product.

**6.3 Equipment.**

(a) CCC shall bear all costs of maintenance and repair, including validation, periodic calibration, as required, and preventive maintenance, of the Equipment, whether required as a result of routine and ordinary wear or otherwise.

(b) CCC shall secure and maintain in good order, at its sole cost and expense, all current governmental registrations, permits and licenses that are required by Governmental Authorities in order for CCC to use the Equipment and to manufacture the Products under this Agreement. CCC shall make copies of such registrations available for viewing by Nevro and its designees for inspection, upon reasonable request from Nevro. CCC agrees to promptly inform Nevro of any injury that occurs on manufacturing and testing equipment that is owned by Nevro but in a CCC Manufacturing Facility.

**6.4 Nevro Property.** Any Nevro Property shall reside and/or remain the property of Nevro and shall (a) be clearly marked or tagged as the property of Nevro, (b) be and remain personal property, and not become a fixture to real property, (c) be subject to inspection by Nevro at any time, (d) be used solely for the purpose of supplying the Products to Nevro, (e) be kept free by CCC from any and all liens and encumbrances, (f) not be modified in any manner by CCC without the prior written approval of Nevro, and (g) be maintained by CCC in accordance with Nevro's maintenance procedures and guidelines, including, if applicable, but not limited to, periodic calibration procedures. Nevro will pay all maintenance costs of Nevro Property. Nevro shall retain all rights, title and interest in Nevro Property and CCC agrees to treat and maintain the Nevro Property with the same degree of care as CCC uses with respect to its own property, but no less care than reasonable care. All processes and specifications related to the Nevro Property shall constitute Nevro's Confidential Information. CCC shall bear all risk of loss or damage to the Nevro Property, normal wear and tear excepted, until it is returned or delivered to Nevro. Upon Nevro's request, CCC shall deliver all of the Nevro Property to Nevro in good condition, normal wear and tear excepted, without cost to Nevro (except freight costs); Nevro shall determine the manner and procedure for returning the Nevro Property, and shall pay the corresponding freight costs. CCC agrees to execute all documents, or instruments evidencing Nevro's ownership of the Nevro Property as Nevro may require from time to time.

**7. SUSPENSION OF MINIMUM PURCHASE THRESHOLDS**

In the event that an injunction, exclusion order, or cease and desist order is issued by any relevant court or tribunal, which thereby prevents the sale, manufacturing, or importation of a Product due to such Product infringing the intellectual property rights of a third party, the parties agree to suspend the Minimum Purchase Thresholds for such Product until the

injunction, exclusion order, or cease and desist order is lifted or terminated (a “**Minimum Purchase Suspension**”). The Minimum Purchase Suspension shall terminate and Nevro shall immediately commence its obligations to satisfy the Minimum Purchase Thresholds upon the termination or lifting of the applicable injunction, exclusion order, or cease and desist order. Nevro shall use its best efforts to prevent any such injunction, exclusion order, or cease and desist order from being issued. desist order from being issued. If an injunction, exclusion order, or cease and desist order is issued despite Nevro’s best efforts, Nevro shall use its best efforts to obtain a judgment vacating, terminating or lifting any such injunction, exclusion order, or cease and desist order as soon as possible after the issuance thereof, to the extent it is legally permissible to do so.

## **8. PROGRAM MANAGEMENT; PRODUCT SUPPORT; COMPLAINTS AND ADVERSE EVENTS; EPIDEMIC FAILURE**

**8.1 Program Management.** Each party shall provide a list of program team members. The list shall include name, title, phone number, and email address. The Program Team List is attached as Exhibit D.

**8.2 Technical Support.** CCC agrees to provide Nevro reasonable technical support and assistance upon request regarding questions about the Specifications and the manufacturing processes for the Products. Any charges for such assistance (beyond normal manufacturing assistance consistent with standard contract manufacturing) will be agreed upon by the parties and paid for by Nevro.

**8.3 Other Support.** Each party shall, in response to any complaint, or in the defense by the other party of any litigation, hearing, regulatory proceeding or investigation relating to the Product, make available to the other party during normal business hours and upon reasonable prior written notice, such party’s employees and records reasonably necessary to permit the effective response to, defense of, or investigation of such matters, subject to appropriate confidentiality protections. Any charges for such assistance will be agreed upon by the parties.

### **8.4 Epidemic Failure.**

(a) For the purposes of this Agreement, epidemic failure will be deemed to have occurred if there is an occurrence of an in-field failure rate of [\*\*\*] percent ([\*\*\*]%) or more of the total units of Product delivered by CCC to Nevro in any [\*\*\*] month period and the root cause of such failure is [\*\*\*] (“**Epidemic Failure**”). In the event of an Epidemic Failure, CCC and Nevro will cooperate to implement the following procedure:

(i) The discovering party shall promptly notify the other party upon discovery of the failure; *provided, however*, that, in the event of a failure that creates a risk of injury or death, the discovering party will immediately notify the other party and will also provide the other party with written notice within [\*\*\*] ([\*\*\*)] business hours of any notification made by the discovering party to any Governmental Authority responsible for regulation of product safety.

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(ii) Within [\*\*\*] ([\*\*\*)] business day after such notification, CCC shall provide to Nevro a preliminary plan for diagnosing the problem, which plan CCC will revise on Nevro's request;

(iii) CCC and Nevro shall jointly diagnose the problem (root cause) and plan a solution or corrective action;

(iv) CCC shall prepare and consult with Nevro regarding an appropriate corrective action plan; and

(v) CCC and Nevro shall mutually agree on a corrective action plan, customer notification, replacement scheduling and remediation, which may include a recall, field action, and return inventory replacement, and repair.

Notwithstanding the foregoing, Nevro may undertake any and all action necessary independently of CCC to correct the Epidemic Failure and shall communicate such action to CCC; provided, that CCC is unable or unwilling to promptly correct the Epidemic Failure.

(b) Any Defective Products subject to Epidemic Failure (including those Defective Products outside of the Warranty Period) may be returned to CCC in accordance with Section 10.3b.

## 9. REGULATORY ACTION

**9.1 Regulatory Inspection.** In the event that CCC receives notice of any inspection by a Governmental Authority of the Manufacturing Facility that involves or otherwise relates to the Product, CCC shall notify Nevro within twenty-four (24) hours of its receipt of such notice. CCC will cooperate, including access to the Manufacturing Facility, Records and CCC personnel, as reasonably necessary to support any such inspection and provide communication and access to Nevro in accordance with the Quality Agreement.

### 9.2 Recalls.

(a) **Incidents and Product Recalls.** CCC shall notify Nevro within [\*\*\*] ([\*\*\*)] business day of any information which may affect the safety or the continued marketing of the Product, including any information relating to: (i) any Product, including any production lot, being made subject to any correction and/or removal, including a recall, market withdrawal or stock recovery (collectively, a "**Recall**"), regardless of whether such Recall is initiated by CCC, Nevro and/or any third party, including a Governmental Authority; (ii) any incident that would cause the Product or its labeling to be mistaken for, or applied to, another article; or (iii) any contamination or any significant chemical, physical, or other change or deterioration in such Product that would cause it to fail to meet the Specifications; or (iv) any other matter that would require a report to the FDA concerning the Product.

(b) **Cooperation.** In the event either party believes it may be necessary to conduct a Recall, CCC and Nevro shall consult with each other as to how best to proceed, it

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being understood and agreed that the final decision as to any Recall of any end product in which the Product is included shall be at Nevro's sole discretion, following consultation with CCC. Nevro will be responsible for, and oversee, notification of any such Recall for such end product sold by Nevro to its customers and will provide CCC with a final report to confirm that the Recall was performed in compliance with Applicable Law. In any event, with respect to any such Recall, Nevro shall make all contacts with the FDA and shall be responsible for coordinating all necessary activities in connection with the Recall. CCC will fully cooperate, at CCC's sole expense, in providing all requested information to Nevro, including any request by Nevro that CCC (i) investigate such Recall, (ii) provide Nevro with an initial response or preliminary report relating to the circumstances leading to the Recall, and (iii) secure any recalled Product to prevent further distribution.

**9.3 Confidentiality.** All information disclosed or exchanged pursuant to this Section 9 shall be treated as Confidential Information of the disclosing party and shall not be disclosed to any third party without the original party's prior written consent, unless such disclosure is permitted under Section 13.3(d).

## **10. REPRESENTATIONS, WARRANTIES AND COVENANTS**

**10.1 Representations, Warranties and Covenants of CCC.** CCC represents and warrants to Nevro that:

(a) as of the Effective Date, CCC is duly organized, validly existing, and in good standing under the laws of New York and has full corporate power and authority to enter into this Agreement;

(b) as of the Effective Date, CCC is in good standing with all applicable Governmental Authorities;

(c) as of the Effective Date, CCC has taken all corporate actions necessary to authorize the execution and delivery of this Agreement and the performance of CCC's obligations under this Agreement;

(d) the performance of CCC's obligations under this Agreement do not materially conflict with, or constitute a material default under CCC's charter documents, any contractual obligation of CCC or any court order;

(e) neither CCC nor any of its employees, agents, consultants and Subcontractors is debarred, suspended, proposed for debarment, or otherwise determined to be ineligible to participate in federal health care programs (as that term is defined in 42 U.S.C. 1320a-7b(f) or under any analogous foreign counterpart), or convicted of a criminal offense related to the provision of health care items or services;

(f) CCC shall not, during the term of this Agreement, undertake any obligation that conflicts with CCC's obligations under this Agreement;

(g) CCC has obtained all material licenses, permits, authorizations, and permissions necessary or requisite under Applicable Law for meeting and performing its obligations under this Agreement, and all such material licenses, permits, authorizations, and permissions are in full force and effect and shall be kept in full force and effect during the term of this Agreement;

(h) the Manufacturing Facility is registered with the appropriate Governmental Authorities and in compliance with all applicable Governmental Authority standards and Applicable Laws;

(i) CCC shall manufacture all Products at and supply all Products from the Manufacturing Facility, and CCC shall not, without Nevro's prior written consent, manufacture Products at or supply Products from any facility other than the Manufacturing Facility;

(j) CCC shall transfer to Nevro good and clear title to the Products, free and clear of all liens, claims and encumbrances;

(k) CCC has the right to grant the rights granted by CCC hereunder and CCC's manufacturing process and its performance of services under this Agreement will not infringe any Intellectual Property Right of any third party;

(l) CCC shall not sell or otherwise transfer the Products to any third party, other than as consented to by Nevro in writing; and

(m) CCC has the right and power to enter into this Agreement.

**10.2 Representations, Warranties and Covenants of Nevro.** Nevro represents and warrants to CCC that

(a) as of the Effective Date, Nevro is duly organized, validly existing and in good standing under the laws of Delaware and has full corporate power and authority to enter into this Agreement;

(b) as of the Effective Date, Nevro is in good standing with all applicable Governmental Authorities;

(c) as of the Effective Date, Nevro has taken all corporate actions necessary to authorize the execution and delivery of this Agreement and the performance of Nevro's obligations under this Agreement;

(d) the performance of Nevro's obligations under this Agreement do not materially conflict with, or constitute a material default under Nevro's charter documents, any contractual obligation of CCC or any court order;

(e) neither Nevro nor any of its employees, agents, consultants or Subcontractors is debarred, suspended, proposed for debarment, or otherwise determined to be ineligible to participate in federal health care programs (as that term is defined in 42 U.S.C.



1320a-7b(f) or under any analogous foreign counterpart), or convicted of a criminal offense related to the provision of health care items or services;

(f) Nevro shall not, during the term of this Agreement, undertake any obligation that conflicts with Nevro's obligations under this Agreement;

(g) Nevro has obtained all material licenses, permits, authorizations, and permissions necessary or requisite under Applicable Law for meeting and performing its obligations under this Agreement, and all such material licenses, permits, authorizations, and permissions are in full force and effect and shall be kept in full force and effect during the term of this Agreement; and

(h) Nevro has the right and power to enter into this Agreement.

### **10.3 Performance Warranty and RMA Process.**

(a) CCC warrants that during the Warranty Period each Product will be free from defects in material and workmanship, will conform to the relevant Specifications, and will have been manufactured in accordance with Good Manufacturing Practices and otherwise in accordance with this Agreement. In the event that any Product does not conform to such warranty, CCC will repair or replace such Product (or refund the price paid therefor) as provided for in Section 10.2(b).

(b) Any Defective Products may be returned to CCC and CCC will, at its sole expense (including shipping and handling expenses), either (i) repair the applicable Defective Products within a reasonable time (which shall be no greater than the lead time set forth on Exhibit A for the applicable Product); (ii) replace the applicable Defective Products within a reasonable time (which shall be no greater than the lead time set forth on Exhibit A for the applicable Product); and/or (iii) and if neither of (i) or (ii) is feasible within such time, upon Nevro's request and without limiting Nevro's rights and remedies under this Agreement, CCC will refund the amount of the payments paid for the Product; provided that (i) Nevro obtains a return authorization from CCC prior to returning the Products (and CCC shall provide Nevro with an RMA number promptly upon request), and the failure analysis, or summary thereof, conducted by Nevro shall accompany the Product or shall otherwise be promptly be delivered to CCC. If the Product returned to CCC is not covered by the warranty (because the return was outside the Warranty Period or was found not to be Defective Product) CCC may charge Nevro for any services performed on the Product.

(c) Notwithstanding any other provision of this Agreement, CCC shall have no obligation to Nevro under the limited warranty set forth in Section 10.3(a) or under Section 14.1 to the extent that (a) the Product is not used in accordance with the Specifications; (b) the Product has had modifications, alterations, repairs or work performed on it by any party other than CCC or CCC's authorized agents; (c) the failure is due to incorrect use or handling of the Products by Nevro or third parties after Nevro accepts such Product; (d) the failure is due to a defect in a Tested NDS Component (which defect could not have reasonably been discovered during NDS Component Testing and which failure or defect was not caused by CCC or its agents

in its handling of such Tested NDS Component or otherwise during the manufacturing process), or (e) Nevro has not complied with Section 10.3(b) (collectively, the “**Section 10.3(c) Causes**”).

#### **10.4 Disclaimer of Warranties.**

(a) EXCEPT FOR THE WARRANTIES MADE IN SECTIONS 10.1 AND 10.3, CCC MAKES NO OTHER WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THE COMPONENTS, PRODUCTS OR ANY SERVICES PROVIDED UNDER THIS AGREEMENT, AND DISCLAIMS ALL OTHER WARRANTIES INCLUDING THE WARRANTIES OF MERCHANTABILITY, NON-INFRINGEMENT AND FITNESS FOR A PARTICULAR PURPOSE OR ARISING FROM A COURSE OF DEALING, USAGE OR TRADE PRACTICE.

(b) EXCEPT FOR THE WARRANTIES MADE IN SECTION 10.2, NEVRO MAKES NO OTHER WARRANTIES WITH RESPECT TO THE NEVRO INTELLECTUAL PROPERTY, CONSIGNED COMPONENTS, NEVRO PROPERTY, THE LICENSES GRANTED HEREUNDER OR OTHER MATERIALS OR DOCUMENTATION PROVIDED BY NEVRO HEREUNDER AND DISCLAIMS ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF NON-INFRINGEMENT, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, OR ARISING FROM A COURSE OF DEALING, USAGE OR TRADE PRACTICE.

### **11. TERM AND TERMINATION**

**11.1 Term.** Unless earlier terminated pursuant to the terms and conditions of this Agreement, this Agreement shall commence on the Effective Date and shall remain in full force and effect for ten (10) years. Thereafter, this Agreement will be automatically extended for additional two (2) year periods unless one party notifies the other in writing one (1) year in advance that it does not intend to renew the Agreement for an additional term (all such renewal periods and the initial term collectively being the “**Term**”).

**11.2 Termination by Nevro.** Nevro may terminate this Agreement by providing three (3) years written notice to CCC in the event a Change of Control of CCC occurs, provided that such notice period shall be one (1) year in the event CCC is acquired by a competitor to Nevro such as but not limited to St. Jude Medical, Boston Scientific or Medtronic or an Affiliate of any such entities. Such notice shall be given by Nevro not less than [\*\*\*] ([\*\*\*)] days after the effective date of any Change of Control or Nevro’s rights under this Section 11.2 shall expire.

**11.3 Termination for Certain Events.** Either party may terminate the Agreement by providing written notice to the other party, upon the occurrence of any of the following events:

(a) if the other party ceases to do business, or otherwise terminates its business operations, excluding any situation where all or substantially all of such other party’s assets, stock or business to which this Agreement relates are acquired by a third party (whether by sale, acquisition, merger, operation of law or otherwise);

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(b) if the other party breaches any material provision of this Agreement and fails to cure such breach within [\*\*\*] ([\*\*\*)] days of written notice describing the breach, except that an undisputed breach of the payment provision of this Agreement must be cured within [\*\*\*] ([\*\*\*)] day of written notice describing the breach; or

(c) if the other becomes insolvent, makes an assignment for the benefit of creditors, files a petition in bankruptcy, permits a petition in bankruptcy to be filed against it, presents a petition or has a petition presented by a creditor for its winding up, or enters into any liquidation or call any meeting of its creditors, or admits in writing that it is unable to pay its debts as they mature, or if a receiver or examiner is appointed for a substantial part of its assets.

#### **11.4 Consequences of Termination.**

(a) Upon any termination or expiration of this Agreement, unless otherwise agreed to by the parties, CCC shall continue to fulfill, subject to the terms of this Agreement, all Purchase Orders placed by Nevro and accepted by CCC in accordance with this Agreement prior to the effective date of termination or expiration. Notwithstanding the foregoing, if this Agreement is terminated by CCC in accordance with Section 11.3, then CCC shall not be required to fulfill its obligations on any Purchase Orders. Furthermore, CCC shall promptly turn over to Nevro all Products (and Nevro shall pay for such Products at the then-current price) and the Specifications, whether or not completed, and both parties shall promptly turn over to the respective party the Confidential Information of such party.

**11.5 Accrued Rights.** Termination or expiration of this Agreement for any reason will not affect the rights and obligations of the parties accrued prior to the effective date of the termination or expiration of this Agreement.

**11.6 Survival.** The following Articles and Sections of this Agreement shall survive its termination or expiration: Articles 1, 4 (solely to the extent payment obligations remain after the effective date of such termination or expiration), 9, 10, 11, 12, 13, 14, 15, 16 and 17 and Sections 6.4 and 8.3 and 8.4.

**11.7 Last Time Buy.** In the event of any termination (excluding CCC's termination pursuant to Section 11.3 or termination pursuant to Section 11.2) or non-renewal of this Agreement, Nevro shall have the option to make a Last Time Buy. If Nevro provides the notice of termination, then Nevro must provide the Last Time Buy order at the same time it provides the notice of termination. If CCC provides the notice of termination under Section 11.1, then Nevro must provide the Last Time Buy order at least [\*\*\*] ([\*\*\*)] months prior to the effective date of termination and must take delivery of such Last Time Buy within [\*\*\*] ([\*\*\*)] months of such order. Any Last Time Buy under Section 11.1 or Section 11.2 will be subject to a price increase equal to [\*\*\*] (i.e., [\*\*\*]), provided that such incremental costs shall not exceed [\*\*\*]% of the price of the applicable Products. CCC shall provide invoices and other reasonably detailed documentation to demonstrate the amount of such costs.

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**11.8 Termination of Predecessor Agreement.** The parties agree that as of the Effective Date the Supply Agreement between Centro De Construccion de Cardioestimuladores del Uruguay S.A. and Nevro Corp. dated March 13, 2015 is terminated. CCC warrants that it has the power and authority to terminate such agreement.

## **12. INTELLECTUAL PROPERTY**

**12.1 Pre-Existing Property.** The term “**Pre-Existing Property**” means all rights of a party to designs, inventions (whether patentable or not), copyrights, trademarks, trade secrets, processes, software, devices and other Intellectual Property Rights and confidential information owned or held by a party immediately prior to the Effective Date. The parties acknowledge and agree that all Pre-Existing Property is the property of the party or its licensors that owned such property immediately before the Effective Date and that, except as expressly set out herein, nothing in this Agreement shall convey or otherwise grant any rights in or to any Pre-Existing Property from one party to the other party.

**12.2 Resulting Property.** The term “**Resulting Property**” means all designs, data, information, inventions, improvements, discoveries, methods, processes (in each case whether patentable or not), software, and devices and any Intellectual Property Rights in any of the foregoing (including copyrights, trademarks, trade secrets, and patent rights) developed by either party as a result of this Agreement.

**12.3 Grant of License.** To the extent that any Resulting Property or any materials, goods or services to be delivered or provided by CCC to Nevro under this Agreement (“**Deliverables**”) incorporate in any manner any of the Pre-Existing Property of CCC or any improvements to or derivatives of the Pre-Existing Property of CCC (the “**Incorporated CCC Property**”), CCC hereby grants to Nevro and its Affiliates and successors and assigns a perpetual, irrevocable, fully paid, worldwide, sublicensable, non-exclusive license under the Incorporated CCC Property and all Intellectual Property Rights therein to make, use, sell, offer for sale, and import the Incorporated CCC Property and all Intellectual Property Rights therein, in connection with such Resulting Property or Deliverables and any improvements, derivatives or successor works of or to such Resulting Property and Deliverables as Nevro considers appropriate, including to use, manufacture, sell, offer for sale, import, display, copy, perform, modify, alter and support the Incorporated CCC Property and any products or services in which such property is incorporated. The license granted to Nevro includes the rights to future improvements to or derivatives of the Incorporated CCC Property to the extent such improvements or derivatives are utilized in connection with a Deliverable, but it does not require CCC to take any actions or perform any activities to incorporate such property into any deliverable in connection with the Resulting Property or Deliverables, or any improvements, derivatives or successor works thereof or thereto. Nothing in this Agreement will be deemed to grant Nevro the right to market, sub-license or otherwise use the Pre-Existing Property of CCC other than in connection with one or more Deliverables or the Resulting Property and products or services in which they are incorporated, or improvements, derivatives or successor works of the foregoing.

**12.4 Ownership of Resulting Property.** The parties acknowledge and agree that all Resulting Property and all Intellectual Property Rights therein, excluding the Incorporated CCC

Property and any changes or improvements to the Incorporated CCC Property made by CCC and all Intellectual Property Rights therein, shall be solely owned by Nevro. CCC shall promptly disclose any such Resulting Property to Nevro. CCC hereby assigns, and shall cause all of its employees, agents, Affiliates, Subcontractors and other authorized representatives to assign, to Nevro any and all interests it or they may have in any such Resulting Property and all Intellectual Property Rights therein. CCC agrees to cooperate with Nevro, at Nevro's expense, for the purpose of filing and prosecuting patent and other Intellectual Property Right applications in connection with the Resulting Property, including the execution of any and all legal papers which are necessary or desirable to affect the intent of this Section 12.4.

### **13. CONFIDENTIAL INFORMATION**

**13.1 Confidentiality Obligations.** Each party agrees that, during the Term of this Agreement and thereafter, such party shall maintain all Confidential Information of the other party in strict confidence, and shall not use such Confidential Information for any purpose other than to perform its obligations or exercise its rights under this Agreement. A receiving party may disclose Confidential Information to its directors, officers, employees, authorized agents and professional advisers to the extent such persons have a need to know such information for the purpose of performing such party's duties and obligations or exercising such party's rights hereunder, provided that such party advises each such individual of the terms of this Section 13 and ensures that each such individual receives and hold such information as if that individual were a party to this Agreement.

**13.2 Exceptions to Confidentiality.** The foregoing obligations in Section 13.1 will not apply to any portion of Confidential Information to the extent that it can be established by the receiving party with competent proof that such portion:

(a) was already known to the receiving party as evidenced by its written records, other than under an obligation of confidentiality, at the time of disclosure;

(b) was generally available to the public or was otherwise part of the public domain at the time of its disclosure to the receiving party;

(c) became generally available to the public or otherwise becomes part of the public domain after its disclosure and other than through any act or omission of the receiving party in breach of this Agreement; or

(d) is independently developed by the receiving party without use of the Confidential Information received from the disclosing party, as evidenced by its written records;

(e) was subsequently lawfully disclosed to the receiving party by a third party other than in contravention of a confidentiality obligation of such third party to the disclosing party.

**13.3 Authorized Disclosures.** Each party may disclose the other party's Confidential Information to the extent such disclosure is reasonably necessary to (i) perform its obligations or exercise its rights under this Agreement and such disclosure is made to a third party who has a

need to know the Confidential Information and who agrees to be bound by confidentiality restrictions at least as restrictive as those contained in this Agreement, and (ii) to comply with Applicable Law, a court order, or rules of a securities exchange. If a party is required to make any such disclosure of the other party's Confidential Information under this Section 13.3, it will give reasonable advance notice to the other party of such disclosure requirement, will reasonably cooperate with the other party in its efforts to secure confidential treatment of such Confidential Information prior to its disclosure, and will use all reasonable efforts to secure confidential treatment of such Confidential Information prior to its disclosure (whether through protective orders or confidentiality agreements or otherwise).

**13.4 Ownership and Return of Confidential Information.** All Confidential Information provided hereunder shall remain the property of the disclosing party. The receiving party shall, within ten days of a written request to do so, return to the disclosing party all Confidential Information that has been provided in tangible form and shall, unless prohibited by law, destroy or otherwise render unintelligible all other Confidential Information. Notwithstanding the foregoing, each party will be allowed to keep one copy of the Confidential Information in order to ensure continued compliance with the terms of this Agreement.

**13.5 Equitable Relief.** The parties acknowledge that monetary damages may not be sufficient remedy for a breach of obligation of confidentiality in this Agreement and agree that each Party shall be entitled to seek appropriate equitable remedies, including injunctive relief, to prevent the unauthorized use or disclosure of any Confidential Information.

**13.6 Public Announcements.** Except to the extent required by Applicable Law, neither party shall make any public announcements concerning this Agreement or the terms hereof without the prior written consent of the other party.

## **14. INDEMNIFICATION.**

**14.1** CCC shall indemnify and hold Nevro and its Affiliates and its and their directors, officers, agents, employees, and consultants (the "**Nevro Indemnitees**") harmless from and against any liabilities, damages, losses, costs, and expenses (including reasonable attorneys' fees) ) which the Nevro Indemnitees may incur or suffer as a result of claims by third parties to the proportionate extent they result from or arise out of (i) any (A) personal injury or death or (B) other claim caused by a breach by CCC of the limited warranty set forth in Section 10.3(a), (ii) any violation of law by CCC, (iii) the gross negligence or intentionally wrongful conduct of CCC, and (iv) a breach of the representations, warranties or covenants in Section 3.3, Section 10.1, and Section 13. Nevro shall promptly, and in any event, within thirty (30) days, after Nevro first learns of such claim, notify CCC of such claim tender the sole defense of such claim to CCC (provided CCC diligently pursues such defense), and cooperate with CCC at CCC's expense in connection with such defense.

**14.2** Nevro will indemnify, defend and hold harmless CCC and its Affiliates and each of their officers, directors, shareholders, employees, agents, successors and assigns (the "**CCC Indemnitees**") against any and all losses, obligations, liabilities, damages, actions, settlements, judgments and reasonable costs and expenses which the CCC Indemnitees may incur or suffer (including, but not limited to, reasonable legal fees) as a result of claims by third parties to the

proportionate extent arising out of or related to (a) the breach by Nevro of any of its warranties in Section 10.2 or the covenants contained in Section 13 of this Agreement, (b) the gross negligence or intentionally wrongful conduct of Nevro, (c) the storage, handling, modification, distribution, marketing or sale of the Nevro System and/or any of the Products (including, but not limited to, any design defects of the Product and any personal injury or death or other claims resulting from such design defects), but, for clarity, excluding any liability to the extent CCC is obligated to indemnify Nevro for such liability under Section 14.1 and any liability to the extent such liability arises from CCC's breach of this Agreement, (d) any statement, promise, representation or warranty made by Nevro or by any agent or distributor of Nevro to a purchaser beyond the limited warranty made by CCC in this Agreement, (e) any and all Section 10.3(c) Causes after shipment by CCC, (f) materials, Components, directives or instructions given by Nevro to CCC, made in writing, (g) any failure to include warnings required by law or regulation on the Nevro System in which a Product is incorporated and any recall of such Nevro System that is not caused by CCC's breach of this Agreement, and (h) infringement of the proprietary rights of any third party by Nevro Intellectual Property. CCC shall promptly, and in any event, within thirty (30) days, after CCC first learns of such claim, notify Nevro of any claim under this section, tender the defense of such claim to Nevro (provided Nevro CCC diligently pursues such defense), and cooperate with Nevro at Nevro's expense in connection with such defense.

**15. LIMITATION OF LIABILITY.** SUBJECT TO THE REMAINDER OF THIS SECTION 15, (A) NEITHER PARTY WILL BE LIABLE UNDER THIS AGREEMENT FOR ANY INDIRECT, CONSEQUENTIAL, COLLATERAL, SPECIAL OR INCIDENTAL DAMAGES (INCLUDING, BUT NOT LIMITED TO, LOSS OF PROFITS) WHETHER SUCH CLAIM IS BASED ON CONTRACT, NEGLIGENCE, STRICT TORT, WARRANTY OR ANY OTHER BASIS, AND (B) EACH PARTY'S TOTAL LIABILITY UNDER THIS AGREEMENT ([\*\*\*) WILL NOT EXCEED [\*\*\*) FOR THE IMMEDIATELY PRECEDING [\*\*\*) ([\*\*\*) MONTH PERIOD (INCLUDING ANY PORTION OF SUCH PERIOD PRECEDING THE EFFECTIVE DATE). NOTWITHSTANDING ANY PAYMENTS OF DAMAGES MADE UNDER THIS SECTION, IF CCC BREACHES THIS AGREEMENT, NEVRO WILL BE ENTITLED TO SPECIFIC PERFORMANCE AND THE LAST TIME BUY PURSUANT TO SECTION 11.7. THE FOREGOING LIMITATIONS OF LIABILITY DO NOT APPLY TO A PARTY'S INDEMNIFICATION OBLIGATIONS UNDER SECTION 14.1 (PROVIDED THAT WITH RESPECT TO ANY "OTHER CLAIM" DESCRIBED IN SECTION 14.1(i)(B), CCC'S LIABILITY SHALL BE LIMITED TO AN AMOUNT EQUAL TO [\*\*\*) THE AMOUNT OF THE LIABILITY LIMIT DESCRIBED ABOVE IN THIS SECTION 15) OR SECTION 14.2, OR CONFIDENTIALITY OBLIGATIONS HEREUNDER.

## **16. INSURANCE**

**16.1 CCC Insurance.** CCC shall procure and maintain product liability insurance in such amounts as ordinary good business practice for its type of business would make advisable and shall provide Nevro with evidence of this coverage; provided, however, that in no case shall the limits of such coverage be less than the following (but subject to any deductible or self-insured retention (SIR)):

[\*\*\*) Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Bodily Injury:	[\$***] Each Occurrence
	[\$***] General Aggregate
Property Damage:	[\$***] Each Occurrence
	[\$***] General Aggregate

Upon request, CCC shall provide Nevro with an insurance certificate on or before January 31st of each year concerning the year started specifying the amounts stated in this Section 16.1 including the SIR.

**16.2 Nevro Insurance.** Nevro shall procure and maintain product liability insurance in such amounts as ordinary good business practice for its type of business would make advisable and shall provide CCC with evidence of this coverage; provided, however, that in no case shall the limits of such coverage be less than the following (but subject to any deductible or self-insured retention (SIR)):

Bodily Injury:	[\$***] Each Occurrence
	[\$***] General Aggregate
Property Damage:	[\$***] Each Occurrence
	[\$***] General Aggregate

Upon request, Nevro shall provide CCC with an insurance certificate on or before January 31st of each year concerning the year started specifying the amounts stated in this Section 16.2 including the SIR.

## 17. GENERAL PROVISIONS

**17.1 Relationship of the Parties.** The parties shall perform their obligations under this Agreement as independent contractors and nothing in this Agreement is intended or will be deemed to constitute a partnership, agency or employer-employee relationship between the parties. Neither party will have any right, power or authority to assume, create, or incur any expense, liability, or obligation, express or implied, on behalf of the other.

**17.2 Assignments.** Subject to the remainder of this provision, this Agreement shall be binding upon, and shall inure to the benefit of, the parties' respective successors and permitted assigns. This Agreement shall not be assignable by either party without the prior written consent of the other party; provided, however, that, upon [\*\*\*] ([\*\*\*)] days prior written notice to CCC but without CCC's consent, Nevro (a) may assign this Agreement to any of its Affiliates provided that Nevro shall remain secondarily liable under this Agreement; and (b) shall assign this Agreement to any individual or entity which acquires all or substantially all of its assets to which this Agreement relates provided that the assignee, in the reasonable judgment of CCC, is able to perform Nevro's obligations under this Agreement. Any assignment not in accordance with this Section 17.2 will be null and void.

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.



**17.3 Further Actions.** Each party agrees to execute, acknowledge, and deliver such further instruments and to do all such other lawful acts as may be reasonably necessary in order to carry out the express provisions of this Agreement.

**17.4 Headings; Construction.** The headings to the clauses, sub-clause and parts of this Agreement are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement. Any ambiguity in this Agreement shall be interpreted equitably without regard to which party drafted the Agreement or any provision thereof. The terms “this Agreement,” “hereof,” “hereunder” and any similar expressions refer to this Agreement and not to any particular Section or other portion hereof. As used in this Agreement, the words “include” and “including,” and variations thereof, will be deemed to be followed by the words “without limitation”.

**17.5 Governing Law; Arbitration.** This Agreement shall be governed by and construed under the laws of the State of Delaware, U.S.A., without regard for conflict of laws principles. Any controversy or claim arising out of or relating to this Agreement, or its breach, shall be subject to binding arbitration in the State of Delaware, under the Commercial Arbitration Rules of the American Arbitration Association by three (3) arbitrators appointed in accordance with such Rules, provided, however, that neither party shall be precluded from seeking injunctive relief or other provisional relief in any court of law. The language of the arbitration shall be English. Judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction. The parties expressly exclude the application of the United Nations Convention on Contracts for the International Sale of Goods. It is not intended that any third party should be a beneficiary under this Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999.

**17.6 Notices and Deliveries.** Any notice, request, delivery, approval or consent required or permitted to be given under this Agreement will be in writing and will be deemed to have been sufficiently given if delivered in person or one (1) business day after sending by express courier service (signature required) or five (5) days after sending by registered letter, return receipt requested (or its equivalent), provided that no postal strike or other disruption is then in effect or comes into effect within two (2) days after such mailing, to the party to which it is directed at its address first shown above or as amended by notice pursuant to this subsection.

**17.7 Waiver.** A waiver by a party of any of the terms and conditions of this Agreement in any instance will not be deemed or construed to be a waiver of such term or condition for the future, or of any subsequent breach thereof. Unless otherwise expressly specified herein, all remedies contained in this Agreement will be cumulative and none of them will be in limitation of any other remedy.

**17.8 Severability.** Each provision of this Agreement will be interpreted in such manner as to be effective and valid under Applicable Law, but, if any provision of this Agreement is held to be prohibited by or invalid under Applicable Law, such provision will be ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or of this Agreement. The parties will make a good faith effort to replace the invalid or unenforceable provision with a valid one which in its economic effect is most consistent with the invalid or unenforceable provision.

**17.9 Counterparts.** This Agreement may be executed simultaneously in counterparts, including by facsimile or electronic exchange of signed copies in PDF format, any one of which need not contain the signature of more than one party but both such counterparts taken together will constitute one and the same agreement.

**17.10 Entire Agreement of the Parties; Conflicts.** This Agreement, the Quality Agreement, and the other exhibits hereto constitute and contain the entire understanding and agreement of the parties respecting the subject matter hereof and cancels and supersedes any and all prior and contemporaneous negotiations, correspondence, understandings, and agreements between the parties, whether oral or written, regarding such subject matter. In the event of any conflict between the provisions of this Agreement and the provisions of the Quality Agreement or any other exhibit hereto, the provisions of this Agreement shall govern.

**17.11 Amendments.** No waiver, modification, or amendment of any provision of this Agreement will be valid or effective unless made in writing and signed by each of the parties.

**17.12 Force Majeure.** The failure or delay of either Party to perform fully any of its obligations under this Agreement (other than a payment obligation) solely by reason of acts of God; acts of civil or military authority; civil disturbance; war; embargo; strikes or other labor disputes (excluding those related to a party's workforce); fire; a delay or default caused by common carriers; or similar circumstance beyond its reasonable control which cannot reasonably be foreseen or provided against ("**Force Majeure**") will be deemed not to be a breach of this Agreement so long as the party so prevented from complying with this Agreement has not contributed to such Force Majeure, has used commercially reasonable efforts to avoid such Force Majeure or to ameliorate its effects, and continues to take all commercially reasonable actions within its power to comply as fully as possible with the terms of this Agreement. In the event of any such Force Majeure, full performance of the obligations affected will be deferred until the Force Majeure ceases. This Section will not apply to excuse a failure to comply with the terms of this Agreement arising from any commercial dispute between a Party and a third party or the failure by a Party to secure any materials, supplies, labor or other input for any reason not caused by Force Majeure.

*[Remainder of page left intentionally blank.]*

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective duly authorized representatives as of the Effective Date.

**CENTRO DE CONSTRUCCION DE  
CARDIOESTIMULADORES DEL  
URUGUAY S.A.**

**NEVRO CORP.**

By: /s/ Antonio Gonzalez

By: /s/ Andrew Galligan

Name: Antonia Gonzalez

Name: Andrew Galligan

Title: President, CRMN

Title: Chief Financial Officer

**Exhibit A**

**Products**

For IPG 1500:

<b>PRODUCTS</b>	<b>Minimum Purchase Thresholds</b>	<b>Lead Time</b>
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]
[***]	[***]	[***]

**IPG Model 1500 VOLUME**

**PRICE**

Contract Year One	[***]	[***]
Contract Year Two and thereafter	[***]	[***]
	The prices in the table above reflect incremental volume pricing (for example, the price for the first [***] units in Contract Year one is [***] per unit and the price for the next [***] units is [***] per unit in that Contract Year). The IPG volumes above are measured by the volumes of units ordered during a Contract Year (or at any time during 2016 for Contract Year 1).	

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**For IPG Model 2000:**

The following provisions are non-binding on the parties unless and until (a) [\*\*\*], (b) [\*\*\*], and (c) [\*\*\*]. Both parties agree to update the lead time for IPG 2000 upon successful completion of the qualification and release to production. Nevro shall reimburse CCC for its reasonable, documented IPG Model 2000 manufacturing startup cost up to the amount of non-recurring engineering fees set forth in the table below:

IPG 2000			
Item	Non-Recurring Engineering Fee	Milestone Payment Schedule	Milestone Price
1	NRE includes the following:		
	[***]	[***]	\$[***]
	[***]	[***]	\$[***]
	[***]	[***]	\$[***]
	[***]	[***]	\$[***]-\$[***]

Once approvals and qualifications in items (a) through (c) have occurred, the following provisions shall apply to Nevro IPG Model 2000:

Subject to the terms and conditions of the Agreement, Nevro commits to a Minimum Purchase Threshold of [\*\*\*]% of the IPG Model 2000 worldwide requirements through the term of the Agreement. Nevro's Forecast provided on or about December 31 of each year shall include Nevro's projected volume of Products and share commitment for the IPG Model 2000 Product for the following Contract Year. Nevro's price per Product for each IPG Model 2000 Product for such Contract Year shall be determined based upon such projected volume and share commitment in accordance with the following table:

**IPG Model 2000 Price Table**

Product Units/Year	Price/Unit		
	[***]% Share Commitment	[***]% Share Commitment	[***]% Share Commitment
[***]	\$[***]	\$[***]	\$[***]
[***]	\$[***]	\$[***]	\$[***]
[***]	\$[***]	\$[***]	\$[***]
[***]	\$[***]	\$[***]	\$[***]
[***]	\$[***]	\$[***]	\$[***]

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

On or about September 1 of each Contract Year, the parties shall meet to review the next Contract Year Forecast and Nevro commitment and the per unit price for the Products for the next Contract Year will be determined using the initial forecasted volume's price per the appropriate pricing tier set out above. If the forecasted volume is within [\*\*\*]% of Products of the next tier's volume break, the parties agree to set the initial pricing at the higher price (i.e., lower volume) and review such pricing twice per year for any material changes in the Forecast. A credit will be issued to Nevro immediately and the per unit price will be reset once shipments scheduled for delivery during the binding portion of the Forecast (pursuant to Section 2.1) exceed the current volume/pricing tier and subsequent Purchase Orders scheduled for delivery during the same Contract Year would be placed at the lower price (i.e., higher volume pricing tier). In the event that Nevro purchases in any Contract Year an amount of Products which is less than the initial Forecast for such Contract Year and the total amount of Products purchased during such Contract Year is in a higher price tier than the price tier offered based on the initial Forecast for such Contract Year, Nevro shall make a payment to CCC, by the end of such Contract Year, an amount equal to [\*\*\*].

**Certain Price Adjustments.** If Nevro agrees to purchase from CCC or any of its Affiliates a minimum of [\*\*\*] percent ([\*\*\*]%) of its finished leads products in for a Contract Year, Nevro shall receive an additional [\*\*\*] percent ([\*\*\*]%) reduction in price for each IPG Model 2000 Product ordered in accordance with such Forecast. Additionally, if Nevro agrees to utilize CCC- or an CCC Affiliate-manufactured battery, feedthrough and enclosure Components in any Contract Year, Nevro shall receive at least a [\*\*\*] dollar (\$[\*\*\*]) reduction in price for each IPG Model 2000 Product ordered in accordance with such Forecast. If Nevro agrees to utilize any one of the CCC- or CCC Affiliate-[\*\*\*] in any Forecast, the parties will negotiate an applicable reduction in price for each IPG Model 2000 Product ordered in accordance with such Forecast.

**Exhibit B**  
**Specifications**

IPG Model 1500

<b>Document Number</b>	<b>Description</b>
[***]	[***]
[***]	[***]

IPG Model 2000

<b>Document Number</b>	<b>Description</b>
[***]	[***]
[***]	[***]

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**Exhibit C**

**CCC Change Notice Form**

[Intentionally omitted.]



**Exhibit D**

**Program Team List**

**CCC:**

Name	Phone Number	E-mail Address	Title/Responsibility
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]

**Nevro:**

Name	Phone Number	E-mail Address	Title/Responsibility
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]

**Communication Counterparts:**

Topics	CCC Representatives	Nevro Representatives
[***]		
[***]		
[***]	[***]	
[***]	[***]	
[***]		
[***]	[***]	
[***]	[***] [***]	
[***]		
[***]	[***]	
[***]	[***]	
[***]	[***]	
[***]	[***]	
[***]	[***]	

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**Exhibit E**

**Approved Facility; Facilities Transfer**

Approved Facility:

[\*\*\*]

[\*\*\*]

[\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**Exhibit F**

**Bill of Materials**

**For IPG 1500:**

<b>Component</b>	<b>Supplier</b>	<b>Cost</b>	<b>Qty</b>	<b>Total cost</b>
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
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***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
***	***	***	***	***
<b>TOTAL</b>				***

**For IPG 2000:** \*\*\*

\*\*\*

\*\*\*] Certain information has been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**FIRST AMENDMENT TO LEASE**  
**(EXPANSION)**

This First Amendment to Lease (the "Agreement") is entered into as of December 9, 2016, by and between WESTPORT OFFICE PARK, LLC, a California limited liability company ("Landlord"), and NEVRO CORP., a Delaware corporation ("Tenant"), with respect to the following facts and circumstances:

A. Landlord and Tenant are parties to that certain Lease Agreement dated March 5, 2015 (the "Original Lease") of certain premises (the "Existing Premises") within the building commonly known as 1800 Bridge Parkway, Redwood City, California 94065 (the "1800 Bridge Building"), and more particularly described in the Original Lease. Capitalized terms used and not otherwise defined herein shall have the meanings given those terms in the Original Lease. Effective as of the date hereof, all references to the "Lease" shall refer to the Original Lease, as amended by this Agreement.

B. Landlord and Tenant desire to amend the Original Lease to add additional space on the terms and conditions provided herein.

IT IS, THEREFORE, agreed as follows:

1. As used in this Agreement, the following terms have the following meanings:

"Expansion Space" means the entire building commonly known as 1600 Bridge Parkway, Redwood City, California 94065 (the "1600 Bridge Building"), containing approximately 49,981 rentable square feet of area, and more particularly shown on Exhibit "B-1" attached hereto.

"Expansion Space Commencement Date" shall mean the date that is the earlier of (i) the date Tenant commences business operations in the Expansion Space, or (ii) the date of Substantial Completion (as defined in the Tenant Work Letter attached hereto as Exhibit "C-1") of the Expansion Space.

2. Effective on the Expansion Space Commencement Date, the Premises shall be expanded to include the Expansion Space. Accordingly, effective on the Expansion Space Commencement Date, Landlord leases the Expansion Space to Tenant and Tenant leases the Expansion Space from Landlord, and the following terms of the Original Lease are amended as follows:

2.1 The Expansion Space is added to the Premises such that the Premises shall be comprised of the Existing Premises and the Expansion Space, and Exhibit "B-1" attached hereto is hereby added to Exhibit "B" to the Original Lease.

2.2 Tenant's Building Percentage and Tenant's Tax Percentage with respect to the 1600 Bridge Building is 100%. Tenant's Common Area Building Percentage is increased to 10.07%.

2.3 Tenant agrees to pay Landlord a monthly Base Rent for the Expansion Space in accordance with the following schedule:

<u>Period (In Months)</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
01 – 12	\$1,199,544.00*	\$99,962.00*
13 – 15	\$1,235,530.32*	\$102,960.86*
16 – 24	\$2,471,060.64	\$205,921.72
25 – 36	\$2,545,192.44	\$212,099.37
37 – 48	\$2,621,548.20	\$218,462.35
49 – 60	\$2,700,194.64	\$225,016.22
61 – 72	\$2,781,200.52	\$231,766.71
72 – 84	\$2,864,636.52	\$238,719.71

\* As an inducement to Tenant entering into this Agreement, during the first fifteen (15) months after the Expansion Space Commencement Date, so long as no Event of Default shall have occurred under the Lease, for purposes of calculating Base Rent only, the Expansion Space shall be deemed to contain only 24,990.50 square feet of rentable area. The amount of Base Rent for the Expansion Space set forth in the table in this Section 2.3 for that period reflects that deemed square footage. During such abatement period, Tenant shall still be responsible for the payment of all of its other monetary obligations under the Lease. The amount equal to the difference between Base Rent payable based on that deemed square footage and the Base Rent that would be payable if the actual square footage of the Expansion Space were used is referred to herein as the "Rental Abatement." In the event of a default by Tenant under the terms of the Lease that results in early termination pursuant to the provisions of Article 22 of the Lease, then as part of the recovery set forth in Article 22 of the Lease, Landlord shall be entitled to the recovery of the Rental Abatement.

The monthly Base Rent for the Expansion Space for the first month after the Expansion Space Commencement Date shall be payable upon the execution of this Agreement. The monthly Base Rent for the Expansion Space shall be payable in the manner provided for in the Original Lease.

2.4 The Term with respect to the Expansion Space shall be coterminous with the Existing Premises, as extended by this Agreement. In the event that Tenant exercises an extension option pursuant to the Original Lease or the Original Lease terminates pursuant to its terms, such extension or termination shall apply to the entire Premises then subject to the Original Lease (including the Expansion Space).

2.5 Tenant's Parking Allocation shall be increased from one hundred sixty-six (166) non-exclusive parking spaces to three hundred thirty (330) non-exclusive

parking spaces, which is based on a parking ratio of 3.3 non-exclusive parking spaces per one thousand (1,000) square feet of rentable space in the Premises.

2.6 The provisions of Section 32.2 of the Original Lease shall apply independently to each of the 1600 Bridge Building and the 1800 Bridge Building such that Tenant shall have the right to install Monument Signage and Building-top Signage on each of those buildings, subject to the terms and conditions of Section 32.2 of the Original Lease (as amended hereby), except that the right to install and maintain Monument Signage on the monument sign and Building-top Signage at the top of the 1600 Bridge Building shall permanently terminate upon written notice from Landlord following the date upon which Tenant ceases to occupy at least one full floor of the 1600 Bridge Building. Accordingly, for purposes of interpreting that Section, each reference to "Building" shall be a reference to each of the 1600 Bridge Building and the 1800 Bridge Building. Landlord hereby (a) approves the graphics, materials, color, design, lettering size, placement and specifications and conformity with Landlord's sign plan of the Building-top Signage to be installed on the 1600 Bridge Building substantially in the form shown on Exhibit "D" attached hereto, and (b) agrees that Tenant may change the color of the existing Building-top Signage on the 1800 Bridge Building to substantially the same color as shown on Exhibit "D" attached hereto.

2.7 Except as otherwise expressly provided in this Agreement, all references to the "Building" in the Lease shall refer to the 1600 Bridge Building and the 1800 Bridge Building, either collectively or individually, as the context requires.

3. Tenant may take possession of the Expansion Space upon the delivery of possession of the Expansion Space by Landlord to Tenant. Tenant's possession of the Expansion Space prior to the Expansion Space Commencement Date shall be on all the terms and conditions of the Original Lease, as amended hereby, except that Tenant shall not be obligated to pay Base Rent or Tenant's Share of Operating Expenses. After the Expansion Space Commencement Date, Tenant's obligation with respect to Base Rent and Tenant's Share of Operating Expenses shall be as provided in the Original Lease, as amended by this Agreement. Tenant shall accept the Expansion Space in its "AS IS" condition and Tenant agrees that Landlord has no obligation and has made no promise to alter, remodel, improve, or repair the Expansion Space, or any part thereof, or to repair, bring into compliance with applicable laws, or improve any condition existing in the Expansion Space as of the Expansion Space Commencement Date, except as provided for in the Tenant Work Letter attached hereto as Exhibit "C-1"; provided nothing in this sentence shall limit Landlord's ongoing obligations under the Lease with respect to repairs, restoration and maintenance. Except as set forth herein, neither Landlord nor Landlord's agents have made any representations or promises with respect to the condition of the 1600 Bridge Building, the Expansion Space, the land upon which the 1600 Bridge Building is constructed, the present or future suitability or fitness of the Expansion Space or the 1600 Bridge Building for the conduct of Tenant's particular business, or any other matter or thing affecting or related to the 1600 Bridge Building or the Expansion Space, and no rights, easements or licenses are acquired by Tenant by implication or otherwise except as expressly set forth in this Agreement. Any improvements or personal property located in the Expansion Space are delivered without any representation or warranty from Landlord, either express or implied, of any kind, including without limitation, title, merchantability, or suitability for a particular

purpose. Tenant shall deliver to Landlord any modifications to Tenant's insurance required under the Original Lease to reflect the addition of the Expansion Space and Tenant's entry into the Expansion Space prior to the delivery of possession to Tenant. Without limiting the Landlord's obligations set forth in Section 4 below, Landlord shall not be liable to Tenant or otherwise be in default hereunder in the event that Landlord is unable to deliver the Expansion Space to Tenant on the projected delivery date thereof due to the failure of any other tenant to timely vacate and surrender to Landlord such Expansion Space, or any portion thereof; provided, however, Landlord agrees to use its commercially reasonable efforts to enforce its rights to possession of such Expansion Space against such tenant (including by bringing suit to evict or otherwise dispossess such tenant of the Expansion Space).

#### 4. Temporary Space.

4.1 In the event that delivery of possession of the Expansion Space to Tenant does not occur by the Temporary Space Date (as defined below), then Landlord shall use commercially reasonable efforts to provide Tenant with temporary space in the Project that is Available for Temporary Use (as defined below) containing rentable area of at least 4,000 square feet. Any space occupied by Tenant pursuant to this Section 4 is referred to in this Section 4 as the "Temporary Space." As used in this Section 4, "Available for Temporary Use" means that the space (i) is not occupied by any person, (ii) may be lawfully occupied without the expenditure of additional funds, (iii) is not then subject to a lease, (iv) is not then subject to any rights of any tenant to renew their lease or expand their premises as set forth in their lease for the period during which Tenant would occupy such space, (v) is not then subject to any negotiations between Landlord and a prospective tenant or an existing tenant, and (vi) is not located in the building known as 1200 Bridge Parkway, Redwood City, California. The term "Temporary Space Date" initially means December 1, 2017, but shall be extended by one day for every one day in delay caused by any one or more Force Majeure Events.

4.2 If Landlord identifies Temporary Space and Tenant elects to occupy the Temporary Space, then during the period beginning on the delivery of possession of the Temporary Space to Tenant and ending on the date that is five (5) days after the earlier of (a) Expansion Space Commencement Date, and (b) if applicable, the date upon which Tenant gives Landlord notice of termination of this Agreement pursuant to Section 6, below (such period being referred to herein as the "Temporary Space Term"), Landlord shall allow Tenant to use the Temporary Space for the uses permitted by the Lease. During the Temporary Space Term, the Temporary Space shall be deemed part of the "Premises". Such Temporary Space shall be accepted by Tenant in its "as-is" condition and configuration, it being agreed that Landlord shall be under no obligation to perform any work in the Temporary Space or to incur any costs in connection with Tenant's move in, move out or occupancy of the Temporary Space. Tenant acknowledges that it shall be entitled to use and occupy the Temporary Space at its sole cost, expense and risk. Tenant shall not construct any improvements or make any alterations of any type to the Temporary Space without the prior written consent of Landlord, which shall not be unreasonably withheld, conditioned or delayed. All actual out-of-pocket of Landlord and any costs of Tenant in connection with making the Temporary Space ready for occupancy by Tenant shall be the sole responsibility of Tenant.

4.3 The Temporary Space shall be subject to all the terms and conditions of the Lease except as expressly modified in this Section 4, provided that Tenant shall not be obligated to pay Base Rent during the Temporary Space Term with respect to the Temporary Space. Tenant shall not be entitled to receive any allowances, abatement or other financial concession in connection with the Temporary Space which was granted with respect to the Premises or the Expansion Space unless such concessions are expressly provided for herein with respect to the Temporary Space, and the Temporary Space shall not be subject to any renewal or expansion rights of Tenant under the Lease.

4.4 Upon termination of the Temporary Space Term, Tenant shall vacate the Temporary Space and deliver the same to Landlord in the same condition that the Temporary Space was delivered to Tenant, ordinary wear and tear excepted and damage by casualty excepted. At the expiration or earlier termination of the Temporary Space Term, Tenant shall remove all debris, all items of Tenant's personalty, and any trade fixtures of Tenant from the Temporary Space. Tenant shall be fully liable for all damage Tenant or Tenant's agents, employees, contractors, or subcontractors cause to the Temporary Space, ordinary wear and tear excepted and damage by casualty excepted.

4.5 Tenant shall have no right to hold over or otherwise occupy the Temporary Space at any time following the expiration or earlier termination of the Temporary Space Term, and in the event of such holdover, Landlord shall immediately be entitled to institute dispossessory proceedings to recover possession of the Temporary Space, without first providing notice thereof to Tenant. In the event of holding over by Tenant after expiration or termination of the Temporary Space Term without the written authorization of Landlord, Tenant shall pay, for such holding over, an amount equal to \$7.80 per rentable square foot of the rentable area of the Temporary Space each month or partial month of holdover, plus all consequential damages that Landlord incurs as a result of the Tenant's hold over after the date that is the later of (a) the expiration or earlier termination of the Temporary Space Term, or (b) the date that is ten (10) days after Landlord has notified Tenant that Landlord has executed a letter of intent or lease with another tenant for all or any portion of the Temporary Space. During any such holdover, Tenant's occupancy of the Temporary Space shall be deemed that of a tenant at sufferance, and in no event, either during the Temporary Space Term or during any holdover by Tenant, shall Tenant be determined to be a tenant-at-will under applicable law. While Tenant is occupying the Temporary Space, Landlord or Landlord's authorized agents shall be entitled to enter the Temporary Space, upon reasonable notice, to display the Temporary Space to prospective tenants. Tenant's obligations under this Section 5 shall survive the termination of this Agreement pursuant to Section 6, below.

5. Notwithstanding Section 3 above, Landlord warrants that the roof, structural components of the 1600 Bridge Building, HVAC system, electrical and plumbing systems, elevator, parking lot and site lighting (the "Covered Items"), other than those constructed by Tenant, shall be in good operating condition and repair on the date possession of the Expansion Space is delivered to Tenant. If a non-compliance with such warranty exists as of the delivery of possession, or if one of such Covered Items should malfunction or fail within ninety (90) days after the delivery of possession to Tenant, Landlord shall, as Landlord's sole obligation with respect to such matter, promptly after receipt of written notice from Tenant



setting forth in reasonable detail the nature and extent of such non-compliance, malfunction or failure, rectify the same at Landlord's expense. If Tenant does not give Landlord the required notice within ten (10) days after the expiration of such ninety (90) day period, Landlord shall have no obligation with respect to that warranty other than obligations regarding the Covered Items set forth elsewhere in the Lease. Any replacement of the roof or HVAC system during the Term shall be amortized as provided in Section 5.1(a)(vii) of the Original Lease.

6. In the event that delivery of possession of the Expansion Space to Tenant does not occur by the Scheduled Delivery Date (as defined below), then Tenant shall be entitled by notice in writing to Landlord within ten (10) days thereafter to terminate this Agreement, in which event the parties shall be discharged from all obligations hereunder; provided further, however, that if such written notice of Tenant is not delivered to Landlord within such ten (10)-day period, Tenant's right to terminate this Agreement hereunder shall terminate and be of no further force or effect. If Tenant elects to terminate this Agreement under this Section then such termination of this Agreement shall be effective on the date which is thirty (30) days after delivery of notice of termination to Landlord. In the event that this Agreement is terminated under this Section, then all of the terms and conditions of the Original Lease shall continue to apply. The term "Scheduled Delivery Date" initially means June 1, 2018, but such date shall be extended by one day for each day in delay caused by any one or more Force Majeure Events or Tenant Delays (as defined in Exhibit "C-1").

7. Landlord and Tenant acknowledge that Tenant may desire to make certain alterations to the Existing Premises in accordance with Article 15 of the Lease ("Tenant's Work"). So long as no Event of Default shall be existing under the Original Lease (as amended by this Agreement) as of the date Tenant requests reimbursement of the Allowance (as defined below), Landlord agrees to reimburse Tenant up to, and not to exceed the sum of Three Hundred Fifty-Three Thousand Two Hundred Ninety Dollars (\$353,290.00) (the "Allowance") (based on a \$7.00 psrf of the Existing Premises). Landlord shall pay the Allowance to Tenant upon delivery to Landlord of "Tenant's Completion Notice" (as defined below) according to the terms and conditions of this Section. The Allowance shall be used to reimburse Tenant for hard and/or soft costs incurred in connection with Tenant's Work ("Tenant's Work Costs"); provided, however, in no event shall the Allowance be used to pay for any of Tenant's trade fixtures, equipment or inventory. Upon the completion of Tenant's Work, Tenant shall submit to Landlord a written notice indicating that Tenant has completed the construction and performance of Tenant's Work in accordance with the provisions of Article 15 of the Original Lease, as amended by this Agreement, which notice shall be accompanied by all of the following (collectively, "Tenant's Completion Notice"): (i) copies of paid invoices and final, unconditional lien waivers (in the form required by applicable laws) from Tenant's general contractor and all subcontractors and material suppliers, showing that full payment has been received for the construction of Tenant's Work; (ii) certification from Tenant's architect that all of Tenant's Work has been completed substantially in accordance with the plans and specifications therefor (approved by Landlord, to the extent Landlord's approval of such plans and specifications was required under Article 15 of the Original Lease, as amended by this Agreement) and all local governmental and quasi-governmental authorities with jurisdiction; and (iii) a copy of the building permit for Tenant's Work, if applicable, signed by the appropriate building inspector, indicating that Tenant's

Work has been finally approved. The Allowance shall be available for a single reimbursement to Tenant during the period from the Expansion Space Commencement Date through the date that is twelve (12) months after the Expansion Space Commencement Date (the "Window"). Any portion of the Allowance not requested by Tenant within the Window shall be deemed forfeited by Tenant and shall no longer be available for disbursement to or for the account of Tenant. In lieu of using some or all of the Allowance for Tenant's Work, so long as no Event of Default then exists under the Lease (other than a default in payment of Base Rent that would be fully cured by the requested application of the Allowance), Tenant may elect to apply the Allowance to payment of Base Rent, first coming due after the Expansion Space Commencement Date by written notice to Landlord.

8. The "Expiration Date" as defined in the Original Lease is hereby amended to be the date that is the day prior to the day that is eighty-four (84) months after the Expansion Space Commencement Date (the "New Expiration Date"), subject to the terms set forth in this Section 8. If the New Expiration Date falls on a day other than the last day of the calendar month, then, the New Expiration Date shall be deemed to be the last day of such calendar month and the Term of the Lease shall be deemed to expire on such date. The period from July 1, 2022 (the "Extension Commencement Date") to the New Expiration Date is referred to herein as the "Extension Term."

9. Prior to the Extension Commencement Date, Tenant shall continue to pay to Landlord monthly Base Rent for the Existing Premises in accordance with the terms of the Original Lease. Commencing on the Extension Commencement Date, Tenant shall pay to Landlord monthly Base Rent for the Existing Premises at the same rental rate per square foot of rentable area then in effect for the Expansion Space, as the rental rate for monthly Base Rent for the Expansion Space may increase from time to time.

10. Tenant is in occupancy of the Existing Premises and will accept the same, as of the commencement of the Extension Term in its "as is" condition, without any agreements, representations, understandings or obligations on the part of Landlord to (i) perform any alterations, additions, repairs or improvements therein, (ii) fund or otherwise pay for any alterations, additions, repairs or improvements thereto, or (iii) grant Tenant any free rent, concessions, credits or contributions of money with respect to the Premises, except as may be expressly provided otherwise in this Agreement. Nothing in this Section 10 shall limit Landlord's ongoing obligations under the Lease with respect to repairs, restoration and maintenance.

11. The Extension Option in Article 51 of the Original Lease shall continue to apply during the Extension Term, except that the term "initial Lease Term" shall be replaced with "Extension Term" each place it appears in Article 51.

12. Except as otherwise provided herein, all of the terms and conditions of the Original Lease shall continue to apply during the Extension Term; provided, however, that any provisions of the Original Lease with respect to rent credit, improvement allowances, Landlord construction obligations or other initial concessions shall be inapplicable with respect to the Extension Term.

13. Landlord hereby represents and warrants to Tenant that it has dealt with no broker, finder or similar person in connection with this Agreement, and Tenant hereby represents and warrants to Landlord that it has dealt with no broker, finder or similar person in connection with this Agreement, other than Cushman & Wakefield ("Landlord's Broker") and Jones Lang LaSalle Brokerage, Inc. ("Tenant's Broker"). Landlord and Tenant shall each defend, indemnify and hold the other harmless with respect to all claims, causes of action, liabilities, losses, costs and expenses (including without limitation attorneys' fees and disbursements) with respect to any leasing commission or equivalent compensation alleged to be owing on account of the indemnifying party's dealings with any real estate broker, agent, finder or similar person other than Landlord's Broker and Tenant's Broker. The commission with respect to this Agreement shall be paid to Landlord's Broker by Landlord pursuant to a separate agreement. Landlord's Broker will pay Tenant's Broker a commission pursuant to a separate agreement. Nothing in this Agreement shall impose any obligation on Landlord to pay a commission or fee to any party other than Landlord's Broker.

14. As additional consideration for this Agreement, Tenant hereby certifies that:

(a) The Original Lease (as amended hereby) is in full force and effect.

(b) Tenant is in possession of the Existing Premises and has not sublet any portion of the Existing Premises or assigned its interest in the Lease

(c) To Tenant's knowledge, there are no uncured defaults on the part of Landlord or Tenant under the Original Lease.

(d) All of Landlord's obligations with respect to construction of tenant improvements in the Premises and payment of tenant improvement allowances have been satisfied, except those provided for in the Tenant Work Letter attached hereto as Exhibit "C-1."

(e) There are no existing offsets or defenses which Tenant has against the enforcement of the Original Lease (as amended hereby) by Landlord.

15. Except as specifically provided herein, the terms and conditions of the Original Lease as amended hereby are confirmed and continue in full force and effect. This Agreement shall be binding on the heirs, administrators, successors and assigns (as the case may be) of the parties hereto. This Agreement and the attached exhibits, which are hereby incorporated into and made a part of this Agreement, together with the Original Lease, set forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements. Under no circumstances shall Tenant be entitled to any Rent abatement, improvement allowance, leasehold improvements, or other work to the Premises, or any similar economic incentives that may have been provided to Tenant in connection with entering into the Original Lease, unless specifically set forth in this Agreement. Tenant agrees that neither Tenant nor its agents or any other parties acting on behalf of Tenant shall disclose any matters set forth in this Agreement or disseminate or distribute any information concerning the terms, details or

conditions hereof to any person, firm or entity without obtaining the express written consent of Landlord. In the case of any inconsistency between the provisions of the Original Lease and this Agreement, the provisions of this Agreement shall govern and control. Submission of this Agreement by Landlord is not an offer to enter into this Agreement but rather is a solicitation for such an offer by Tenant. Landlord shall not be bound by this Agreement until Landlord has executed and delivered the same to Tenant. Time is of the essence of this Agreement and the provisions contained herein.

16. As an inducement to Landlord to enter into this Agreement, Tenant hereby represents and warrants that: (i) Tenant is not, nor is it owned or controlled directly or indirectly by, any person, group, entity or nation named on any list issued by the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") pursuant to Executive Order 13224 or any similar list or any law, order, rule or regulation or any Executive Order of the President of the United States as a terrorist, "Specially Designated National and Blocked Person" or other banned or blocked person (any such person, group, entity or nation being hereinafter referred to as a "Prohibited Person"); (ii) Tenant is not (nor is it owned or controlled, directly or indirectly, by any person, group, entity or nation which is) acting directly or indirectly for or on behalf of any Prohibited Person; and (iii) neither Tenant (nor any person, group, entity or nation which owns or controls Tenant, directly or indirectly) has conducted or will conduct business or has engaged or will engage in any transaction or dealing with any Prohibited Person, including without limitation any assignment of the Lease or any subletting of all or any portion of the Premises or the making or receiving of any contribution of funds, goods or services to or for the benefit of a Prohibited Person. Tenant covenants and agrees (a) to comply with all requirements of law relating to money laundering, anti-terrorism, trade embargos and economic sanctions, now or hereafter in effect, (b) to immediately notify Landlord in writing if any of the representations, warranties or covenants set forth in this Section are no longer true or have been breached or if Tenant has a reasonable basis to believe that they may no longer be true or have been breached, (c) not to use funds from any Prohibited Person to make any payment due to Landlord under the Lease and (d) at the request of Landlord, to provide such information as may be reasonably requested by Landlord to determine Tenant's compliance with the terms hereof. Any breach by Tenant of the foregoing representations and warranties shall be deemed a default by Tenant under this Lease and shall be covered by the indemnity provisions of the Original Lease. The representations and warranties contained in this Section shall be continuing in nature and shall survive the expiration or earlier termination of the Lease.

17. To satisfy compliance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Section 4975(c) of the Internal Revenue Code, Tenant hereby certifies that the representations and warranties in Article 53 of the Original Lease are true and correct as of the date of this Agreement.

18. Pursuant to California Civil Code Section 1938, Tenant is hereby notified that, as of the date hereof, the 1600 Bridge Building and the 1800 Bridge Building have not undergone an inspection by a "Certified Access Specialist" and Landlord states the following: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection

of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the premises."

Landlord makes no representations as to the compliance of the Premises, the 1600 Bridge Building or the 1800 Bridge Building with accessibility standards. Notwithstanding anything contained herein or in the Original Lease to the contrary, Tenant shall not be responsible for compliance with the path of travel provisions of the Americans with Disabilities Act at any time during the Term (including any extension thereof) except for any compliance work required with reference to the particular use of Tenant (other than general office use), the acts or omissions of Tenant or any of Tenant's agents, employees, contractors, sublessees or invitees, or any alterations, additions or improvements performed by or on behalf of Tenant (other than the Expansion Space Improvements).

IN WITNESS WHEREOF, this Agreement was executed as of the date first above written.

Landlord:

WESTPORT OFFICE PARK, LLC,  
a California limited liability company

By: THE PRUDENTIAL INSURANCE  
COMPANY OF AMERICA, a New  
Jersey corporation, acting solely on behalf  
of and for the benefit of, and with its  
liability limited to the assets of, its  
insurance company separate account,  
PRISA II, its member

By: /s/ Jeffrey D. Mills  
Jeffrey D. Mills  
Vice President  
\_\_\_\_\_  
[Printed Name and Title]

Tenant:

NEVRO CORP., a Delaware corporation

By: \_\_\_\_\_ /s/ Andrew Galligan

Its: \_\_\_\_\_ Chief Financial Officer

By: \_\_\_\_\_ /s/ Richard B. Carter

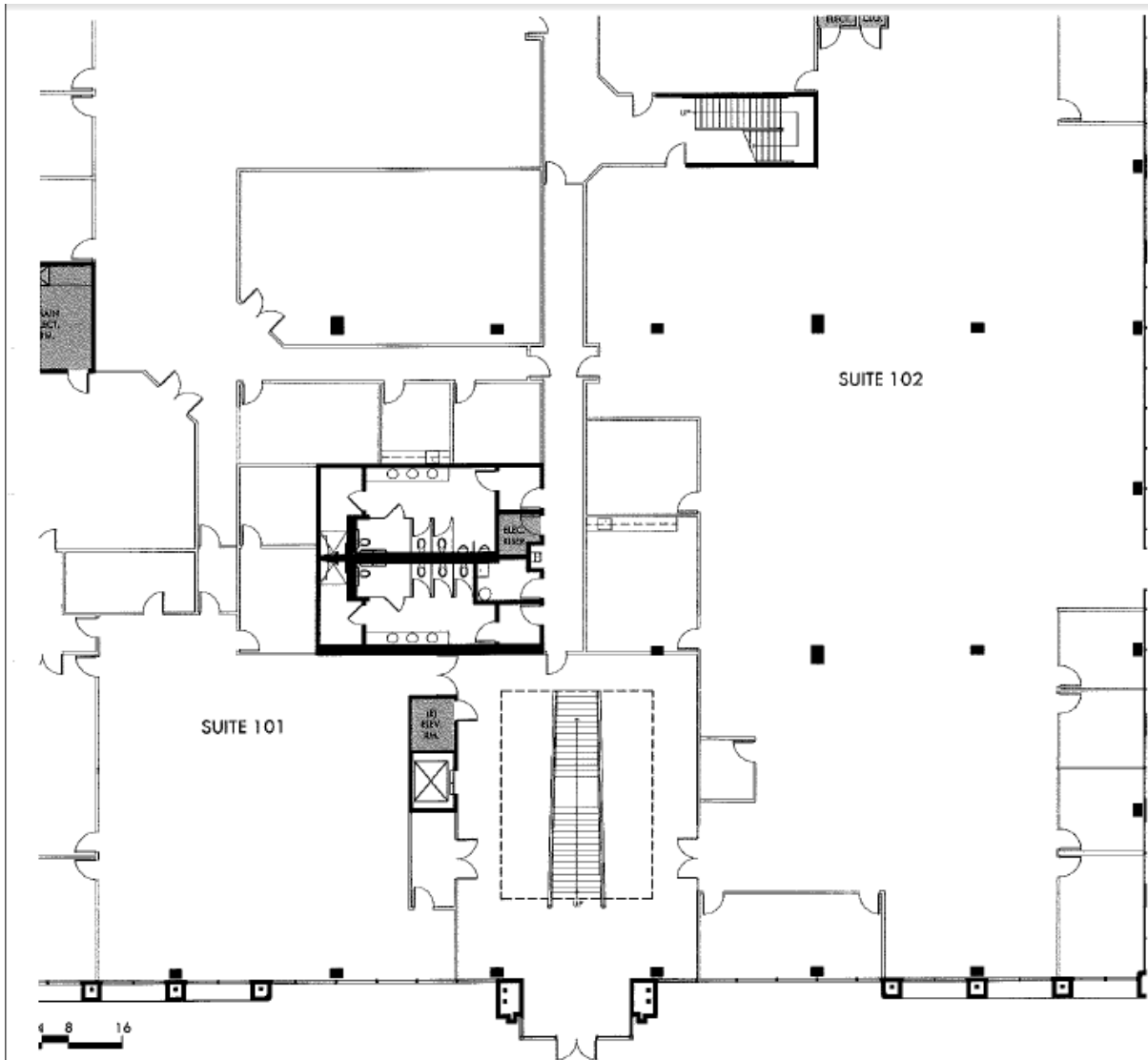
Its: \_\_\_\_\_ VP Finance

If Tenant is a corporation, this instrument must be executed by the chairman of the board, the president or any vice president and the secretary, any assistant secretary, the chief financial officer or any assistant financial officer or any assistant treasurer of such corporation, unless the bylaws or a resolution of the board of directors shall otherwise provide, in which case the bylaws or a certified copy of the resolution, as the case may be, must be attached to this instrument.

**EXHIBIT B-1**

**EXPANSION SPACE**



(See Attached.)



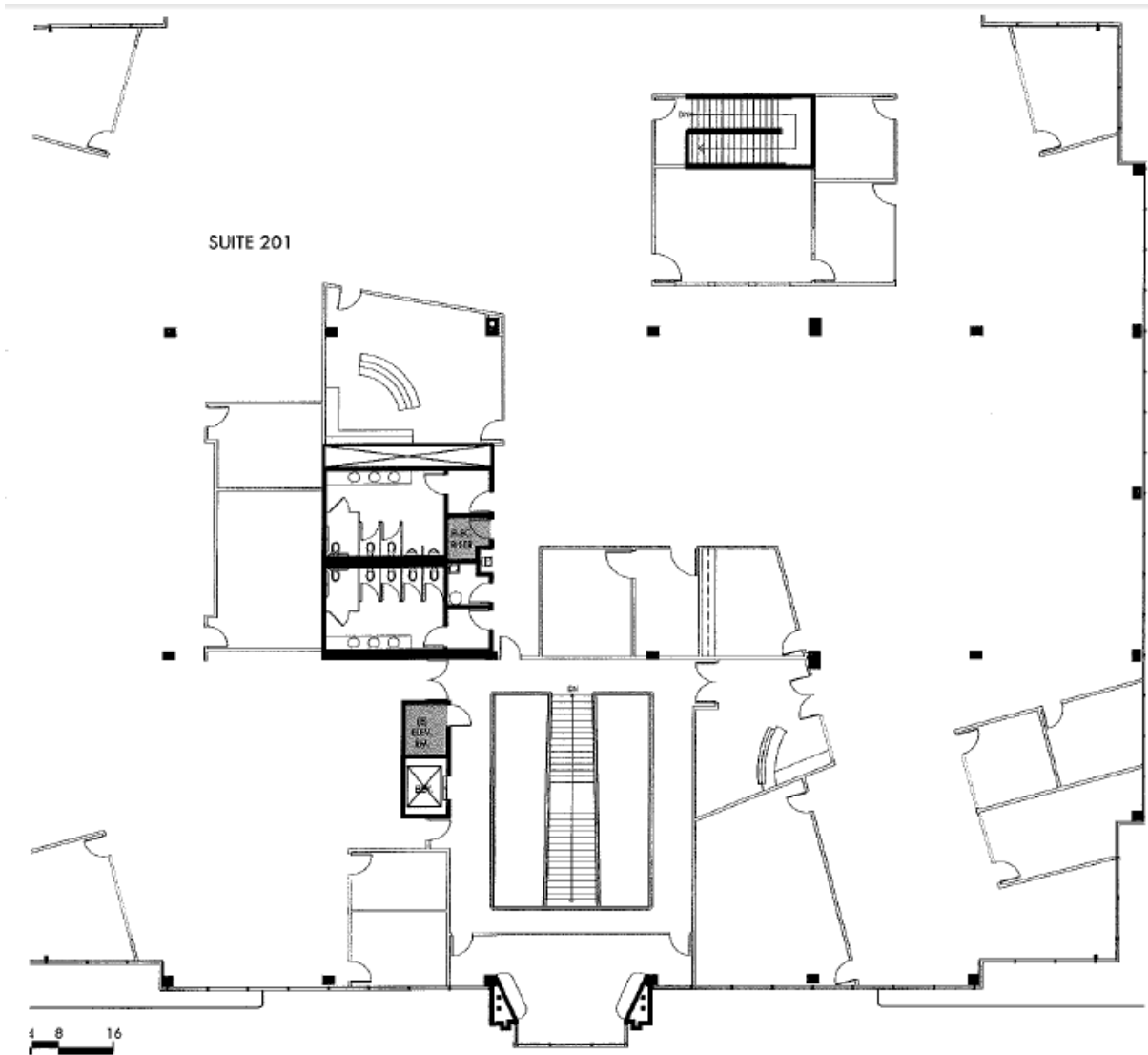
**G FLOOR PLAN - FIRST FLOOR**

THIS DRAWING IS INTENDED FOR PREMISES EXHIBIT  
 PURPOSES ONLY AND SHOULD NOT BE USED FOR  
 CONTRACTING, DESIGN DETAIL, MATERIAL TAKE OFFS

**GRAPHIC LEGEND**

-  EXISTING CORE, SHELL & DEMISING WALLS
-  EXISTING INTERIOR PARTITIONS







**3 FLOOR PLAN - SECOND FLOOR**

THIS DRAWING IS INTENDED FOR PREMISES EXHIBIT  
 PURPOSES ONLY AND SHOULD NOT BE USED FOR  
 ENGINEERING, DESIGN DETAIL, MATERIAL TAKE OFFS  
 OR CONSTRUCTION PURPOSES

**GRAPHIC LEGEND**

-  EXISTING CORE, SHELL & DEMISING WALLS
-  EXISTING INTERIOR PARTITIONS

## EXHIBIT C-1

### TENANT WORK LETTER

This Tenant Work Letter is attached to and made a part of that certain First Amendment to Lease dated December 9, 2016 (the "Amendment") between WESTPORT OFFICE PARK, LLC, a California limited liability company ("Landlord"), and NEVRO CORP., a Delaware corporation ("Tenant"), which amends the Original Lease (as defined in the Amendment). Any capitalized term used and not otherwise defined in this Tenant Work Letter has the meaning given such term in the Amendment (or, if not defined in the Amendment, the meaning given such term in the Original Lease). This Tenant Work Letter sets forth the terms and conditions relating to the construction of the Expansion Improvements in the Expansion Space.

#### Section 1

##### BASE, SHELL AND CORE; LANDLORD WORK

1.1 Base, Shell and Core. Landlord has previously constructed the base, shell, and core (i) of the Expansion Space and (ii) of the floor(s) of the Building on which the Expansion Space are located (collectively, the "Base, Shell, and Core") and other improvements, and Tenant shall accept the Base, Shell and Core and such other improvements in their current "As-Is" condition existing as of the date of the Amendment and the Expansion Space Commencement Date. Tenant shall install in the Expansion Space certain "Expansion Space Improvements" (as defined below) pursuant to the provisions of this Tenant Work Letter. Except for Landlord's obligation to disburse the Expansion Space Improvement Allowance and perform the Landlord Work and the Expansion Space Improvement work as described below, Landlord shall not be obligated to make or pay for any alterations or improvements to the Expansion Space, the Premises, the Building or the Project.

1.2 Landlord Work. As a condition to the delivery of possession of the Expansion Space to Tenant, Landlord shall satisfy the following conditions at Landlord's sole cost and expense (the "Landlord's Work"):

(a) install one (1) new electric car charging station in a location reasonably approved by Landlord; and

(b) correct any failure of the path of travel for the Expansion Space outside of the 1600 Bridge Building to comply with the Americans with Disabilities Act, as interpreted by the City of Redwood City and Landlord's architect, to the extent such correction is necessary in order for Tenant to obtain a building permit or a certificate of occupancy for the Expansion Space Improvements in the Expansion Space for general office purposes; provided that nothing contained herein shall be deemed to prohibit Landlord from obtaining a variance or relying upon a grandfathered right in order to achieve compliance with

those codes. Notwithstanding the foregoing, Landlord shall have the right to contest any alleged violation in good faith, including, without limitation, the right to apply for and obtain a waiver or deferment of compliance, the right to assert any and all defenses allowed by law, and the right to appeal any decisions, judgments or rulings to the fullest extent permitted by law, and Landlord's obligation to perform work or take such other action to cure a violation under this Section shall apply after the exhaustion of any and all rights to appeal or contest.

## Section 2

### EXPANSION SPACE IMPROVEMENTS

2.1 Expansion Space Improvement Allowance. Tenant shall be entitled to a one-time tenant improvement allowance (the "Expansion Space Improvement Allowance") in the amount of up to, but not exceeding \$45.00 per rentable square foot of the Expansion Space (i.e., up to \$2,249,145.00, based on 49,981 rentable square feet in the Expansion Space), for the costs relating to the initial design and construction of Tenant's improvements which are permanently affixed to the Expansion Space (the "Expansion Space Improvements"). In no event shall Landlord be obligated to make disbursements pursuant to this Tenant Work Letter in a total amount which exceeds the Expansion Space Improvement Allowance. Tenant shall not be entitled to receive any cash payment or credit against Rent or otherwise for any unused portion of the Expansion Space Improvement Allowance which is not used to pay for the Expansion Space Improvement Allowance Items (as such term is defined below). In no event shall the Expansion Space Improvement Allowance be used for purposes of constructing improvements in the Expansion Space for purposes of offering space for sublease or for the benefit of a subtenant. Notwithstanding anything to the contrary in this Section 2.1, so long as the Expansion Space Improvements have been completed and all cost of the Expansion Space Improvements have been paid, and so long as no Event of Default exists under the Lease, Tenant may use up to \$499,810.00 of any unused portion of the Expansion Space Improvement Allowance for furniture, cabling and/or moving expenses.

2.2 Disbursement of the Expansion Space Improvement Allowance. Except as otherwise set forth in this Tenant Work Letter, the Expansion Space Improvement Allowance shall be disbursed by Landlord (each of which disbursement shall be made pursuant to Landlord's standard disbursement process), only for the following items and costs (collectively, the "Expansion Space Improvement Allowance Items"):

2.2.1 Payment of the fees of the "Architect" and the "Engineers," as those terms are defined in Section 3.1 of this Tenant Work Letter, and payment of the fees incurred by, and the cost of documents and materials supplied by, Landlord and Landlord's consultants in connection with the preparation and review of the "Construction Drawings," as that term is defined in Section 3.1 of this Tenant Work Letter;

2.2.2 The payment of plan check, permit and license fees relating to construction of the Expansion Space Improvements;

2.2.3 The cost of construction of the Expansion Space Improvements, including, without limitation, contractors' fees and general conditions, testing and inspection costs, costs of utilities, trash removal, parking and hoists;

2.2.4 The cost of any changes in the Base, Shell and Core when such changes are required by the Construction Drawings (including if such changes are due to the fact that such work is prepared on an unoccupied basis), such cost to include all direct architectural and/or engineering fees and expenses incurred in connection therewith;

2.2.5 The cost of any changes to the Construction Drawings or Expansion Space Improvements required by any applicable laws;

2.2.6 Sales and use taxes and Title 24 fees;

2.2.7 "Landlord's Supervision Fee," as that term is defined in Section 4.3.2 of this Tenant Work Letter;

2.2.8 The costs and expenses associated with complying with all national, state and local codes, including California Energy Code, Title 24, including, without limitation, all costs associated with any lighting or HVAC retrofits required thereby; and

2.2.9 All other costs to be expended by Landlord in connection with the construction of the Expansion Space Improvements.

2.3 Specifications for Building Standard Components. Landlord has established specifications (the "Specifications") for the Building standard components to be used in the construction of the Expansion Space Improvements in the Expansion Space, which Specifications have been received by Tenant. Unless otherwise agreed to by Landlord, the Expansion Space Improvements shall comply with the Specifications. Landlord may make changes to the Specifications from time to time.

### Section 3

#### CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Landlord shall retain an architect/space planner (the "Architect") to prepare the "Construction Drawings," as that term is defined in this Section 3.1. Landlord shall retain Landlord's engineering consultants (the "Engineers") to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, lifesafety, and sprinkler work in the Expansion Space. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "Construction Drawings." Notwithstanding that any Construction Drawings are reviewed by Landlord or prepared by its Architect, Engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's Architect, Engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith and shall not be responsible for any omissions or

errors contained in the Construction Drawings, and Tenant's waiver and indemnity set forth in the Lease shall specifically apply to the Construction Drawings.

3.2 Final Space Plan. No later than thirty (30) days after the date hereof, Tenant shall meet with Landlord's Architect and provide Landlord's Architect with information regarding the preliminary layout and designation of all proposed offices, rooms and other partitioning, and their intended use and equipment to be contained therein (the "Information"). Landlord and Architect shall, based on such Information (subject to changes reasonably required by Landlord), prepare the final space plan for Expansion Space Improvements in the Expansion Space (collectively, the "Final Space Plan"), which Final Space Plan shall include a layout and designation of all offices, rooms and other partitioning, their intended use, and equipment to be contained therein, and shall deliver the Final Space Plan to Tenant for Tenant's approval. Tenant shall approve or reasonably disapprove the Final Space Plan or any revisions thereto within ten (10) business days after Landlord delivers the Final Space Plan or such revisions to Tenant; provided, however, that Tenant may only disapprove the Final Space Plan to the extent the same is not (subject to changes reasonably required by Landlord) in substantial conformance with the Information provided by Tenant to Architect ("Space Plan Design Problem"). Tenant's failure to disapprove the Final Space Plan for any Space Plan Design Problem or any revisions thereto by written notice to Landlord (which notice shall specify in detail the reasonable reasons for Tenant's disapproval pertaining to any Space Plan Design Problem) within said ten (10) business day period shall be deemed to constitute Tenant's approval of the Final Space Plan or such revisions.

3.3 Final Working Drawings. Based on the Final Space Plan, Landlord shall cause the Architect and the Engineers to complete the architectural and engineering drawings for the Expansion Space, and Architect shall compile a fully coordinated set of architectural, structural, mechanical, electrical and plumbing working drawings in a form which is complete to allow subcontractors to bid on the work and to obtain all applicable permits (collectively, the "Final Working Drawings") and shall submit the same to Tenant for Tenant's approval. The Final Working Drawings shall incorporate modifications to the Final Space Plan as necessary to comply with the floor load and other structural and system requirements of the Building. To the extent that the finishes and specifications are not completely set forth in the Final Space Plan for any portion of the Expansion Space Improvements depicted thereon, the actual specifications and finish work shall be in accordance with the Specifications. Tenant shall approve or reasonably disapprove the Final Working Drawings or any revisions thereto within ten (10) business days after Landlord delivers the Final Working Drawings or any revisions thereto to Tenant; provided, however, that Tenant may only disapprove the Final Working Drawings to the extent the same are not (subject to changes reasonably required by Landlord) in substantial conformance with the Final Space Plan ("Working Drawing Design Problem"). Tenant's failure to reasonably disapprove the Final Working Drawings or any revisions thereto by written notice to Landlord (which notice shall specify in detail the reasonable reasons for Tenant's disapproval pertaining to any Working Drawing Design Problem) within said ten (10) business day period shall be deemed to constitute Tenant's approval of the Final Working Drawings or such revisions.

3.4 Approved Working Drawings. The Final Working Drawings shall be approved or deemed approved by Tenant (the "Approved Working Drawings") prior to the commencement of the construction of the Expansion Space Improvements. Landlord shall cause the Architect to submit the Approved Working Drawing to the applicable local governmental agency for all applicable building permits necessary to allow "Contractor," as that term is defined in Section 4.1 of this Tenant Work Letter, to commence and fully complete the construction of the Expansion Space Improvements (the "Permits"). No changes, modifications or alterations in the Approved Working Drawings may be made without the prior written consent of Landlord, not to be unreasonably withheld, conditioned or delayed beyond the applicable time periods in this Section 3, provided that Landlord may withhold its consent, in its sole discretion, to any change in the Approved Working Drawings, if such change would directly or indirectly delay the Substantial Completion of the Expansion Space.

3.5 Time Deadlines. Tenant shall use reasonable efforts to cooperate with Architect, the Engineers, and Landlord to complete all phases of the Construction Drawings and the permitting process and to receive the Permits, and with Contractor, for approval of the "Cost Proposal," as that term is defined in Section 4.2 below as soon as possible after the execution of the Amendment and, in this regard, to the extent Landlord considers such meeting(s) to be reasonably necessary, Tenant shall meet with Landlord on a weekly basis to discuss Tenant's progress in connection with the same.

3.6 Design Problem. Notwithstanding anything to the contrary in this Tenant Work Letter, Landlord shall be deemed to have acted reasonably in disapproving plans or designs if Landlord determines in good faith that the matter disapproved constitutes or would create a Design Problem (as defined below). As used herein, a "Design Problem" shall mean (i) adverse effect on the structural integrity of the Building; (ii) possible damage to the Building's systems; (iii) non-compliance with applicable codes; (iv) adverse effect on the exterior appearance of the Building; (v) creation of the potential for unusual expenses to be incurred upon the removal of the alteration or improvement and the restoration of the Expansion Space upon termination of this Lease, unless Tenant agrees to pay for the incremental removal costs caused by the non-typical alterations; (vi) creation of the potential for unusual expenses to be incurred in connection with the maintenance by Landlord of the alteration or improvement, unless Tenant agrees to pay for the incremental maintenance costs caused by the non-typical alterations, (vii) a material effect any other tenant or occupant of the Building, (viii) creation of an obligation to make other alterations, additions or improvements to the Expansion Space or Common Areas in order to comply with applicable laws (including, without limitation, the Americans with Disabilities Act) or (ix) adverse effect on the LEED rating of the Building.

#### Section 4

### CONSTRUCTION OF THE EXPANSION SPACE IMPROVEMENTS

4.1 Contractor. A contractor, under the supervision of and selected by Landlord, shall construct the Expansion Space Improvements (the "Contractor").

4.2 Cost Proposal. After the Approved Working Drawings are signed by Landlord and Tenant, Landlord cause the Contractor to competitively bid the subcontracts with the major trades to at least three (3) subcontractors in each such major trade and based on that bidding process shall provide Tenant with a cost proposal in accordance with the Approved Working Drawings, which cost proposal shall include, as nearly as possible, the cost of all Expansion Space Improvement Allowance Items to be incurred by Tenant in connection with the construction of the Expansion Space Improvements (the "Cost Proposal"). Notwithstanding the foregoing, portions of the cost of the Expansion Space Improvements may be delivered to Tenant as such portions of the Expansion Space Improvements are priced by Contractor (on an individual item-by-item or trade-by-trade basis), even before the Approved Working Drawings are completed (the "Partial Cost Proposal"). Tenant shall approve and deliver the Cost Proposal to Landlord within ten (10) business days of the receipt of the same (or, as to a Partial Cost Proposal, within five (5) business days of receipt of the same). The date by which Tenant must approve and deliver the Cost Proposal, or the last Partial Cost Proposal to Landlord, as the case may be, shall be known hereafter as the "Cost Proposal Delivery Date." The total of all Partial Cost Proposals, if any, shall be known as the Cost Proposal.

4.3 Construction of Expansion Space Improvements by Landlord's Contractor under the Supervision of Landlord.

4.3.1. Over-Allowance Amount. On the Cost Proposal Delivery Date, Tenant shall deliver to Landlord cash in an amount (the "Over-Allowance Amount") equal to the difference between (i) the amount of the Cost Proposal and (ii) the amount of the Expansion Space Improvement Allowance (less any portion thereof already disbursed by Landlord, or in the process of being disbursed by Landlord, on or before the Cost Proposal Delivery Date). The Over-Allowance Amount shall be disbursed by Landlord prior to the disbursement of any then remaining portion of the Expansion Space Improvement Allowance, and such disbursement shall be pursuant to the same procedure as the Expansion Space Improvement Allowance. In the event that, after the Cost Proposal Delivery Date, any revisions, changes, or substitutions shall be made to the Construction Drawings or the Expansion Space Improvements, any additional costs which arise in connection with such revisions, changes or substitutions shall be added to the Cost Proposal and shall be paid by Tenant to Landlord immediately upon Landlord's request to the extent such additional costs increase any existing Over-Allowance Amount or result in an Over-Allowance Amount. Following completion of the Expansion Space Improvements, Landlord shall deliver to Tenant a final cost statement which shall indicate the final costs of the Expansion Space Improvement Allowance Items, and if such cost statement indicates that Tenant has underpaid or overpaid the Over-Allowance Amount, then within ten (10) business days after receipt of such statement, Tenant shall deliver to Landlord the amount of such underpayment or Landlord shall return to Tenant the amount of such overpayment, as the case may be.

4.3.2 Landlord Supervision. After Landlord selects the Contractor, Landlord shall independently retain Contractor to construct the Expansion Space Improvements in accordance with the Approved Working Drawings and the Cost Proposal and Landlord shall supervise the construction by Contractor, and Tenant shall pay a

construction supervision and management fee (the "Landlord's Supervision Fee") to Landlord in an amount equal to the product of (i) three percent (3%) and (ii) an amount equal to the Expansion Space Improvement Allowance plus the Over-Allowance Amount (as such Over-Allowance Amount may increase pursuant to the terms of this Tenant Work Letter).

4.3.3 Contractor's Warranties and Guaranties. Landlord hereby assigns to Tenant all warranties and guaranties by Contractor relating to the Expansion Space Improvements, which assignment shall be on a non-exclusive basis such that the warranties and guarantees may be enforced by Landlord and/or Tenant, and Tenant hereby waives all claims against Landlord relating to, or arising out of the construction of, the Expansion Space Improvements.

## Section 5

### SUBSTANTIAL COMPLETION;

#### EXPANSION SPACE COMMENCEMENT DATE

5.1 Substantial Completion. For purposes of the Amendment, including for purposes of determining the Expansion Space Commencement Date "Substantial Completion" of the Expansion Space shall occur upon the later of (a) completion of construction of the Expansion Space Improvements in the Expansion Space pursuant to the Approved Working Drawings, with the exception of any punchlist items and any tenant fixtures, work-stations, built-in furniture, or equipment to be installed by Tenant or under the supervision of Contractor, and (b) Landlord's receipt of a final sign-off on the permits for the Expansion Space Improvements sufficient under customary practices in Redwood City, California, to allow legal occupancy of the Expansion Space.

5.2 Tenant Delays. If there shall be a delay or there are delays in the Substantial Completion of the Expansion Space (as a direct, indirect, partial, or total result of any of the following (collectively, "Tenant Delays")):

5.2.1 Tenant's failure to timely approve any matter requiring Tenant's approval, including a Partial Cost Proposal or the Cost Proposal and/or Tenant's failure to timely perform any other obligation or act required of Tenant hereunder;

5.2.2 a breach by Tenant of the terms of this Tenant Work Letter or the Lease;

5.2.3 Tenant's request for changes in the Construction Drawings;

5.2.4 Tenant's requirement for materials, components, finishes or improvements which are not available in a reasonable time (based upon the anticipated date of the Expansion Space Commencement Date) or which are different from, or not included in, the Specifications;



5.2.5 changes to the Base, Shell and Core required by the Approved Working Drawings;

5.2.6 any changes in the Construction Drawings and/or the Expansion Space Improvements required by (i) applicable laws if such changes are directly attributable to Tenant's use of the Expansion Space or Tenant's specialized Expansion Space Improvement(s) (as reasonably determined by Landlord), and/or (ii) Landlord pursuant to Section 4.2 above; or

5.2.7 any other acts or omissions of Tenant, or its agents, or employees;

5.2.8 then, notwithstanding anything to the contrary set forth in the Amendment and regardless of the actual date of the Substantial Completion of the Expansion Space, the Expansion Space Commencement Date shall be deemed to be the date the Expansion Space Commencement Date would have occurred if no Tenant Delays, as set forth above, had occurred.

## Section 6

### MISCELLANEOUS

6.1 Tenant's Representative. Tenant has designated Rich Carter as its sole representative with respect to the matters set forth in this Tenant Work Letter, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Tenant Work Letter.

6.2 Landlord's Representative. Landlord has designated Christine Scheerer as its sole representative with respect to the matters set forth in this Tenant Work Letter, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Tenant Work Letter.

6.3 Time of the Essence in This Tenant Work Letter. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. In all instances where Tenant is required to approve or deliver an item, if no written notice of approval is given or the item is not delivered within the stated time period, at Landlord's sole option, at the end of said period the item shall automatically be deemed approved or delivered by Tenant and the next succeeding time period shall commence.

6.4 Tenant's Lease Default. Notwithstanding any provision to the contrary contained in the Lease, if an Event of Default by Tenant under the Lease has occurred at any time on or before the Substantial Completion of the Expansion Space and is continuing, then (i) in addition to all other rights and remedies granted to Landlord pursuant to the Lease, at law and/or in equity, Landlord shall have the right to withhold payment of all or any portion of the Expansion Space Improvement Allowance and/or Landlord may cause Contractor to cease the construction of the Expansion Space (in which case, Tenant shall be responsible for

any delay in the Substantial Completion of the Expansion Space caused by such work stoppage as set forth in Section 5.2 of this Tenant Work Letter), and (ii) all other obligations of Landlord under the terms of this Tenant Work Letter shall be forgiven until such time as such Event of Default is cured pursuant to the terms of the Lease (in which case, Tenant shall be responsible for any delay in the Substantial Completion of the Expansion Space caused by such inaction by Landlord). In addition, if the Lease is terminated prior to the Expansion Space Commencement Date, for any reason due to an Event of Default by Tenant under the Lease, in addition to any other remedies available to Landlord under the Lease, at law and/or in equity, Tenant shall pay to Landlord, as Additional Rent under the Lease, within ten (10) days of receipt of a statement therefor, any and all reasonable out of pocket costs (if any) incurred by Landlord (including any portion of the Expansion Space Improvement Allowance disbursed by Landlord) and not reimbursed or otherwise paid by Tenant through the date of such termination in connection with the Expansion Space Improvements to the extent planned, installed and/or constructed as of such date of termination, including, but not limited to, any costs related to the removal of all or any portion of the Expansion Space Improvements and restoration costs related thereto.

6.5 Access. Upon reasonable prior notice, Landlord shall arrange for Tenant and Tenant's agents to have access to inspect the Expansion Space, which inspection shall take place at a time reasonably acceptable to Landlord, Tenant and the existing tenant. Tenant and Tenant's agents shall be accompanied by Landlord and/or existing tenant and/or their respective agents, to the extent Landlord and/or existing tenant so elect.

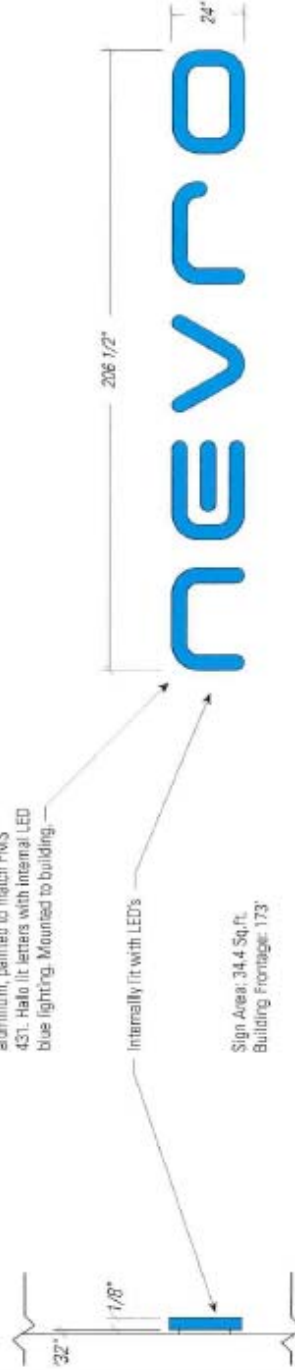
**EXHIBIT D**

**BUILDING-TOP SIGNAGE**

(See Attached.)



Scale: 1/16" = 1'-0"



Scale: 1/4" = 1'-0"

ELEVATION

Scale: 1/4" = 1'-0"

**List of Subsidiaries of  
Nevro Corp.**

<b><u>Subsidiary</u></b>	<b><u>Jurisdiction of Incorporation or Organization</u></b>
Nevro Medical Sarl	Switzerland
Nevro Medical Limited	United Kingdom
Nevro Medical Pty Ltd.	Australia
Nevro Germany GmbH	Germany

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-211864) and Form S-8 (Nos. 333-209816, 333-202857, and 333-200145) of Nevro Corp. of our report dated February 23, 2017 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
February 23, 2017

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)**

I, Rami Elghandour, certify that:

1. I have reviewed this Annual Report on Form 10-K of Nevro Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2017

/s/ Rami Elghandour  
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Rami Elghandour  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)**

I, Andrew H. Galligan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Nevro Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2017

/s/ Andrew H. Galligan  
\_\_\_\_\_  
Andrew H. Galligan  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Nevro Corp. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2016, as filed with the Securities and Exchange Commission (the “Report”), Rami Elghandour, Chief Executive Officer of the Company, and Andrew H. Galligan, Chief Financial Officer of the Company, respectively, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2017

/s/ Rami Elghandour

Rami Elghandour  
Chief Executive Officer  
(principal executive officer)

/s/ Andrew H. Galligan

Andrew H. Galligan  
Chief Financial Officer  
(principal financial and accounting officer)