
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-37725

MIRAMAR LABS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

80-0884221
(I.R.S. Employer
Identification No.)

2790 Walsh Avenue
Santa Clara, California 95051
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (408) 579-8700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 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 type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a small reporting company) | Small reporting company | <input checked="" 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 November 8, 2016, the registrant had 9,380,653 shares of common stock, \$0.001 par value per share, outstanding.

MIRAMAR LABS, INC.
FORM 10-Q
TABLE OF CONTENTS

| | <u>Page</u> |
|---------------------------------------|-------------|
| PART I – FINANCIAL INFORMATION | |
| | 3 |
| Item 1. | 4 |
| | 4 |
| | 5 |
| | 6 |
| | 7 |
| | 8 |
| Item 2. | 21 |
| Item 4. | 32 |
| PART II – OTHER INFORMATION | |
| Item 1. | 33 |
| Item 2. | 33 |
| Item 6. | 34 |
| | 36 |

“Miramar Labs”, “miraDry”, “miraDry and Design”, “Drop Design”, “miraWave”, “miraSmooth”, “miraFresh”, and “ML Stylized mark” are trademarks of our company. Our logo and our other trade names, trademarks and service marks appearing in this document are our property. Other trade names, trademarks and service marks appearing in this document are the property of their respective owners. Solely for convenience, our trademarks and trade names referred to in the document, appear without the TM or the (R) symbol, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the rights of the applicable licensor to these trademarks and trade names.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, or this Report, contains forward-looking statements, including, without limitation, in the sections captioned “Management’s Discussion and Analysis of Financial Condition and Plan of Operations,” and elsewhere. Any and all statements contained in this Report that are not statements of historical fact may be deemed forward-looking statements. Terms such as “may,” “might,” “would,” “should,” “could,” “project,” “estimate,” “pro-forma,” “predict,” “potential,” “strategy,” “anticipate,” “attempt,” “develop,” “plan,” “help,” “believe,” “continue,” “intend,” “expect,” “future” and terms of similar import (including the negative of any of the foregoing) may be intended to identify forward-looking statements. However, not all forward-looking statements may contain one or more of these identifying terms. Forward-looking statements in this Report may include, without limitation, statements regarding (i) the plans and objectives of management for future operations, including plans or objectives relating to the development of our miraDry System, (ii) a projection of income (including income/loss), earnings (including earnings/loss) per share, capital expenditures, dividends, capital structure or other financial items, (iii) our future financial performance, including any such statement contained in a discussion and analysis of financial condition by management or in the results of operations included pursuant to the rules and regulations of the Securities and Exchange Commission, or the SEC, and (iv) the assumptions underlying or relating to any statement described in points (i), (ii) or (iii) above.

The forward-looking statements are not meant to predict or guarantee actual results, performance, events or circumstances and may not be realized because they are based upon our current projections, plans, objectives, beliefs, expectations, estimates and assumptions and are subject to a number of risks and uncertainties and other influences, many of which we have no control over. Actual results and the timing of certain events and circumstances may differ materially from those described by the forward-looking statements as a result of these risks and uncertainties. Factors that may influence or contribute to the inaccuracy of the forward-looking statements or cause actual results to differ materially from expected or desired results may include, without limitation:

- market acceptance of the miraDry energy based treatment;
- the benefits of the miraDry treatment versus other solutions;
- our ability to successfully sell and market the miraDry System in our existing and expanded geographies;
- the performance of the miraDry System in clinical settings;
- competition from existing technologies or products or new technologies and products that may emerge;
- the implementation of our business model and strategic plans for our business and the miraDry System;
- the scope of protection we are able to establish and maintain for intellectual property rights covering the miraDry System;
- our ability to obtain regulatory approval in targeted markets for the miraDry System;
- our financial performance;
- developments relating to our competitors and the healthcare industry; and
- other risks and uncertainties, including those risk factors identified in “Risk Factors” of our registration statement on Form S-1 filed with the United States Securities and Exchange Commission, or the SEC, on October 14, 2016.

Readers are cautioned not to place undue reliance on forward-looking statements because of the risks and uncertainties related to them and to the risk factors. We disclaim any obligation to update the forward-looking statements contained in this Report to reflect any new information or future events or circumstances or otherwise, except as required by law.

Readers should read this Report in conjunction with those risk factors identified in “Risk Factors” of our registration statement on Form S-1 filed with the SEC on October 14, 2016, and the financial statements and notes thereto contained in that report, as well as the financial statements and the related notes thereto in this Report, and other documents which we may file from time to time with the SEC.

PART I—FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

**MIRAMAR LABS, INC.
Condensed Consolidated Balance Sheets**

| | September 30, 2016 | December 31, 2015 |
|--|-----------------------|----------------------|
| | (Unaudited) | (Audited) |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 6,073,680 | \$ 2,642,509 |
| Accounts receivable, net | 3,102,629 | 2,683,053 |
| Inventories | 5,613,145 | 4,791,741 |
| Prepaid expenses and other current assets | 641,220 | 290,481 |
| Total current assets | 15,430,674 | 10,407,784 |
| Property and equipment, net | 783,942 | 1,211,129 |
| Restricted cash | 295,067 | 295,067 |
| Other noncurrent assets | 13,976 | 11,860 |
| TOTAL ASSETS | \$ 16,523,659 | \$ 11,925,840 |
| LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Notes payable, net of discount | \$ 9,939,261 | \$ 10,829,375 |
| Accounts payable | 1,432,136 | 1,288,107 |
| Accrued and other current liabilities | 4,513,318 | 3,572,441 |
| Deferred revenue | 228,955 | 739,786 |
| Total current liabilities | 16,113,670 | 16,429,709 |
| Warrant liability | 54,029 | 499,616 |
| Deferred rent, noncurrent | 87,010 | 112,065 |
| Capital lease payable, noncurrent | — | 16,865 |
| TOTAL LIABILITIES | 16,254,709 | 17,058,255 |
| Commitments and contingencies (Note 6) | | |
| Redeemable convertible preferred stock, \$.001 par value - 40,000,000 shares authorized and 2,826,981 shares issued and outstanding at December 31, 2015 (Liquidation preference of \$61,179,942). No shares authorized or outstanding at September 30, 2016 | — | 61,179,942 |
| Stockholders' equity (deficit): | | |
| Blank check preferred stock, \$.001 par value - 5,000,000 shares authorized. No shares issued and outstanding at September 30, 2016 and December 31, 2015. | — | — |
| Series A convertible preferred stock, \$.001 par value - 2,100,000 shares authorized and 147,864 shares issued and outstanding at December 31, 2015 (Liquidation preference of \$2,000,000). No shares authorized or outstanding at September 30, 2016 | — | 148 |
| Series B convertible preferred stock, \$.001 par value - 9,000,000 shares authorized and 589,784 shares issued and outstanding at December 31, 2015 (Liquidation preference of \$14,359,244). No shares authorized or outstanding at September 30, 2016 | — | 590 |
| Common stock, \$.001 par value - 100,000,000 and 105,500,000 shares authorized and 9,380,653 and 398,540 shares issued and outstanding at September 30, 2016 and December 31, 2015 | 9,381 | 399 |
| Additional paid-in capital | 110,711,248 | 27,133,634 |
| Accumulated deficit | (110,451,679) | (93,447,128) |
| TOTAL STOCKHOLDERS' EQUITY (DEFICIT) | 268,950 | (66,312,357) |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 16,523,659 | \$ 11,925,840 |

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

MIRAMAR LABS, INC.

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

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|--|---|----------------|--|-----------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Revenue | \$ 4,303,307 | \$ 3,793,241 | \$ 16,035,338 | \$ 11,822,320 |
| Cost of revenue | 1,787,770 | 1,742,357 | 7,211,110 | 5,745,297 |
| Gross margin | 2,515,537 | 2,050,884 | 8,824,228 | 6,077,023 |
| Operating expenses: | | | | |
| Research and development | 817,488 | 1,192,019 | 2,562,481 | 3,941,360 |
| Selling and marketing | 3,448,976 | 2,736,610 | 9,975,248 | 8,980,820 |
| General and administrative | 1,871,739 | 1,313,436 | 4,716,991 | 3,907,822 |
| Total operating expenses | 6,138,203 | 5,242,065 | 17,254,720 | 16,830,002 |
| Loss from operations | (3,622,666) | (3,191,181) | (8,430,492) | (10,752,979) |
| Interest income | 4,035 | 1,214 | 7,764 | 5,001 |
| Interest expense | (285,615) | (481,194) | (948,662) | (1,025,013) |
| Loss on debt conversion | — | — | (8,062,001) | — |
| Other income, net | (9,929) | 11,252 | 438,148 | 88,104 |
| Net loss before provision for income taxes | (3,914,175) | (3,659,909) | (16,995,243) | (11,684,887) |
| Provision for income taxes | (7,783) | (7,297) | (9,308) | (8,722) |
| Net and comprehensive loss | (3,921,958) | (3,667,206) | (17,004,551) | (11,693,609) |
| Accretion of redeemable convertible preferred stock | — | (20,000) | — | (63,117) |
| Net loss attributable to common stockholders | \$ (3,921,958) | \$ (3,687,206) | \$ (17,004,551) | \$ (11,756,726) |
| Weighted-average common shares used in computing net loss per share attributable to common stockholders, basic and diluted | 9,256,362 | 385,271 | 4,030,810 | 385,271 |
| Net loss per share attributable to common stockholders, basic and diluted | \$ (0.42) | \$ (9.57) | \$ (4.22) | \$ (30.52) |

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

MIRAMAR LABS, INC.
Condensed Consolidated Statements of Redeemable
Convertible Preferred Stock and Stockholders' Equity (Deficit)
(Unaudited)

| | Redeemable Convertible Preferred Stock | | Convertible Preferred Stock | | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Total Stockholders' Equity (Deficit) |
|--|--|---------------|-----------------------------|--------|--------------|----------|----------------------------|---------------------|--------------------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Balances at December 31, 2014 | 2,826,981 | \$ 61,179,942 | 737,648 | \$ 738 | 385,294 | \$ 385 | \$ 26,478,755 | \$ (78,952,880) | \$ (52,473,002) |
| Exercise of stock options at \$1.35- \$8.66 per share for cash in October 2015 | — | — | — | — | 13,246 | 14 | 51,079 | — | 51,093 |
| Series D redeemable preferred stock issuance cost | — | (3,117) | — | — | — | — | — | — | — |
| Accretion of redeemable convertible preferred stock to redemption value | — | 3,117 | — | — | — | — | (3,117) | — | (3,117) |
| Stock-based compensation | — | — | — | — | — | — | 606,917 | — | 606,917 |
| Net and comprehensive loss | — | — | — | — | — | — | — | (14,494,248) | (14,494,248) |
| Balances at December 31, 2015 | 2,826,981 | \$ 61,179,942 | 737,648 | \$ 738 | 398,540 | \$ 399 | \$ 27,133,634 | \$ (93,447,128) | \$ (66,312,357) |
| Exercise of stock options at \$6.63 - \$8.66 per share for cash in April 2016 | — | — | — | — | 3,267 | 3 | 24,619 | — | 24,622 |
| Exercise of stock options at \$1.36 per share for cash in September 2016 | — | — | — | — | 18,483 | 19 | 25,118 | — | 25,137 |
| Issuance of restricted common stock at \$5.5925 per share for consulting services in August 2016 | — | — | — | — | 63,636 | 63 | 355,822 | — | 355,885 |
| Issuance of common stock, net of offering costs of \$831,117 | — | — | — | — | 1,568,726 | 1,569 | 7,055,608 | — | 7,057,177 |
| Issuance of common stock for conversion of February 2016 convertible notes | — | — | — | — | 2,418,628 | 2,418 | 12,090,633 | — | 12,093,051 |
| Issuance of common stock for conversion of May 2016 convertible notes | — | — | — | — | 409,841 | 410 | 2,048,884 | — | 2,049,294 |
| Issuance of common stock to KTL Bamboo International Corp | — | — | — | — | 900,000 | 900 | (900) | — | — |
| Conversion of preferred stock to common stock in connection with the merger | (2,826,981) | (61,179,942) | (737,648) | (738) | 3,611,857 | 3,612 | 61,177,068 | — | 61,179,942 |
| Common stock repurchased in connection with the merger | — | — | — | — | (12,325) | (12) | (61,684) | — | (61,696) |
| Conversion of convertible preferred stock warrants to common stock warrants | — | — | — | — | — | — | 53,436 | — | 53,436 |
| Issuance of common stock warrants for issuance costs | — | — | — | — | — | — | (44,663) | — | (44,663) |
| Stock-based compensation | — | — | — | — | — | — | 853,673 | — | 853,673 |
| Net and comprehensive loss | — | — | — | — | — | — | — | (17,004,551) | (17,004,551) |
| Balances at September 30, 2016 | — | \$ — | — | \$ — | 9,380,653 | \$ 9,381 | \$ 110,711,248 | \$ (110,451,679) | \$ 268,950 |

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

MIRAMAR LABS, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Nine Months Ended September 30, | |
|--|--|---------------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (17,004,551) | \$ (11,693,609) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 411,132 | 526,904 |
| Loss on debt conversion | 8,062,001 | — |
| Loss on disposal of fixed assets | — | 1,475 |
| Stock-based compensation | 853,673 | 464,792 |
| Issuance of restricted common stock | 355,885 | — |
| Change in preferred stock warrant value | (436,814) | (92,596) |
| Amortization of debt discount and issuance costs | 290,549 | 138,612 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (419,576) | 728,321 |
| Inventories | (653,261) | 163,739 |
| Prepaid expenses and other current assets | (350,739) | 6,806 |
| Other noncurrent assets | (2,116) | — |
| Accounts payable | 144,029 | (73,576) |
| Accrued and other current liabilities | 927,918 | 410,171 |
| Deferred revenue | (510,831) | (207,578) |
| Net cash used in operating activities | <u>(8,332,701)</u> | <u>(9,626,539)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (152,088) | (156,466) |
| Net cash used in investing activities | <u>(152,088)</u> | <u>(156,466)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from issuance of common stock | 7,106,936 | — |
| Repurchase of common stock | (61,696) | — |
| Redeemable convertible preferred stock issuance costs | — | (63,117) |
| Proceeds from issuance of notes payable | 5,145,067 | 2,296,079 |
| Principal payments on capital leases | (28,961) | (40,872) |
| Payments on notes payable | (245,386) | (2,252,127) |
| Net cash provided by (used in) financing activities | <u>11,915,960</u> | <u>(60,037)</u> |
| Net increase (decrease) in cash and cash equivalents | 3,431,171 | (9,843,042) |
| Cash and cash equivalents at beginning of period | 2,642,509 | 13,484,740 |
| Cash and cash equivalents at end of period | <u>\$ 6,073,680</u> | <u>\$ 3,641,698</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 598,385 | \$ 909,021 |
| Cash paid for taxes | \$ 9,308 | \$ 8,722 |
| DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Accretion of redeemable preferred stock to redemption value | \$ — | \$ 63,117 |
| Net transfer to inventory from leased equipment | \$ (168,143) | \$ (138,351) |
| Conversion of preferred stock and warrants to common stock and warrants | \$ 76,827,313 | \$ — |
| Common stock issued to convert notes payable | \$ 14,142,345 | \$ — |
| Issuance of common stock warrants for issuance costs | \$ 44,663 | \$ 234,719 |

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

MIRAMAR LABS, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Background and Organization

On June 7, 2016 (the “**Closing Date**”), the Company, Acquisition Sub and Miramar entered into an Agreement and Plan of Merger and Reorganization (the “**Merger Agreement**”). Pursuant to the terms of the Merger Agreement, Acquisition Sub merged with and into Miramar, and Miramar became the surviving corporation and thus became the Company’s wholly-owned subsidiary (the “**Merger**”). Prior to the Merger, the Company discontinued its prior business of distributing water filtration systems produced in China, and acquired the business of Miramar, which designs, manufactures and markets the miraDry System, which is designed to eliminate axillary, or underarm, sweat.

At the Closing Date, each of the shares of Miramar’s common stock and preferred stock issued and outstanding immediately prior to the closing of the Merger was converted into shares of the Company’s common stock at a ratio of 1:0.07393 (the “**Conversion Ratio**”). Additionally, warrants to purchase shares of Miramar’s Series A Preferred Stock, Series C Preferred Stock and Series D Preferred Stock issued and outstanding immediately prior to the closing of the Merger were converted into warrants to purchase shares of the Company’s common stock at the Conversion Ratio.

The Merger was treated as a recapitalization and reverse acquisition of the Company for financial accounting purposes. Miramar is considered the acquirer for accounting purposes, and the Company’s historical financial statements before the Merger will be replaced with the historical financial statements of Miramar before the Merger in future filings with the SEC. For more details on the Merger, please see Item 2.01 of our Current Report on Form 8-K filed with the SEC on June 13, 2016, as amended on June 14, 2016.

The Company and its wholly-owned subsidiary, Miramar, develop clinical systems to address hyperhidrosis. In January 2011, Miramar received approval from the U.S. Food and Drug Administration (the “**FDA**”), to market the miraDry System to eliminate underarm sweat glands. The Company’s principal markets are the United States, Asia-Pacific and Europe/Middle East. During 2012, Miramar Technologies, Inc. commercially launched its first product, the miraDry System, a clinical system to address hyperhidrosis.

Miramar has a wholly-owned subsidiary, Miramar Labs HK Limited, which was incorporated under the laws of Hong Kong in January 2013. Miramar Labs HK Limited commenced its operations during 2013 to oversee operations in Asia and is located in Hong Kong.

The accompanying unaudited condensed financial statements have been prepared in accordance with the rules and regulations of the SEC, for interim financial information and, accordingly, do not include all of the information and footnotes required by generally accepted accounting principles in the United States (“**GAAP**”) for complete financial statements. These condensed consolidated financial statements are prepared on the same basis and should be read in conjunction with the audited financial statements and related notes included in the Company’s financial statements for the year ended December 31, 2015. Interim results are not necessarily indicative of the results to be expected for the full year, and no representation is made thereto.

In the opinion of management, these financial statements include all adjustments necessary to state fairly the financial position and results of operations for each interim period shown. All such adjustments occur in the ordinary course of business and are of a normal, recurring nature.

The accompanying financial statements are prepared on a going concern basis which contemplates the realization of assets and discharge of liabilities in the normal course of business. Since inception, Miramar Labs, Inc. had incurred net losses and negative cash flows from operations. From April 4, 2006 (date of inception) to September 30, 2016, Miramar Labs, Inc. had an accumulated deficit of \$110,451,679. The Company has not achieved positive cash flows from operations. To date, the Company has been funded primarily by preferred stock and debt financings. In order to continue its operations, the Company must raise additional equity or debt financing and achieve profitable operations. These factors raise substantial doubt about the Company’s ability to continue as a going concern. There can be no assurance that the Company will be able to obtain additional equity or debt financing on terms acceptable to the Company, or at all. The failure to obtain sufficient funds on acceptable terms, when needed, could have a material, adverse effect on the Company’s business, results of operations, and future cash flows.

To achieve profitable operations, the Company must successfully continue to develop, enhance, manufacture, and market its products. There can be no assurance that any such products can continue to be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect upon the Company's financial results, financial position and future cash flows.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Intercompany balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's most significant estimates relate to inventory valuation and reserves, warranty accruals, deferred tax asset valuation allowance and valuation of equity and equity-linked instruments (common stock, options and warrants).

Our management believes that we consistently apply these judgments and estimates and the consolidated financial statements and accompanying notes fairly represent all periods presented. However, any differences between these judgments and estimates and actual results could have a material impact on our consolidated statements of income and financial position.

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 and cash equivalents. The Company's cash and cash equivalents are deposited with one financial institution in the United States of America. Deposits in this institution may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents. At September 30, 2016, the Company's uninsured cash balances totaled \$6,101,499.

The Company performs periodic credit evaluations of its customers' financial condition and generally requires deposits from its customers. The Company generally does not charge interest on past due accounts. The Company's customers representing greater than 10% of accounts receivable and revenue were as follows:

| | Revenue | | Accounts Receivable | |
|------------|---------------------------------|---------------|---------------------|--------------|
| | Nine Months Ended September 30, | September 30, | September 30, | December 31, |
| | 2016 | 2015 | 2016 | 2015 |
| Customer A | 12% | * | * | * |
| Customer B | * | * | 28% | * |
| Customer C | * | * | 11% | 12% |
| Customer D | * | 15% | * | 20% |
| Customer E | * | * | * | 23% |

Sales in North America consisted of 46% and 44% of total revenue, in the nine month periods ended in September 30, 2016 and 2015, respectively. The remainder of the Company's sales came primarily from Asia-Pacific and Europe/Middle East. Generally, the second quarter tends to be stronger than the third quarter, when vacations and holidays are more prevalent in North America and Europe.

Amplifiers used in the production of the miraDry system are manufactured in the United States and consumables ("bioTips") are manufactured in China. These single source suppliers of these critical components may not be replaced without significant effort and delay in production. If the operations of these manufacturers are interrupted or if they are unable to meet our delivery requirements due to capacity limitations or other constraints, the Company may be limited in its ability to fulfill customer orders or to repair equipment at current customer sites.

Significant Accounting Policies

There have been no material changes to the Company's significant accounting policies during the nine months ended September 30, 2016, as compared to the significant accounting policies described in the Company's financial statements for the year ended December 31, 2015, filed on Form 8-K on June 13, 2016.

Recent Accounting Pronouncements

There were no changes to the new accounts pronouncements as described in the Company's financial statements for the year ended December 31, 2015, filed on Form 8-K on June 13, 2016, except for the following:

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This update provides guidance on the required presentation and classification in the statement of cash flows for various issues for which there has been diversity in practice in the past. For public entities, the new standard is effective for annual periods beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company is currently evaluating the effect that the standard will have on the consolidated financial statements.

3. Balance Sheet Components

Inventories

| | September 30, 2016 | December 31, 2015 |
|------------------|-------------------------------|------------------------------|
| | (Unaudited) | |
| Raw materials | \$ 2,365,170 | \$ 2,132,655 |
| Work in progress | 1,960,245 | 1,263,019 |
| Finished goods | 1,287,730 | 1,396,067 |
| | <u>\$ 5,613,145</u> | <u>\$ 4,791,741</u> |

Property and Equipment, Net

| | September 30, 2016 | December 31, 2015 |
|---|-------------------------------|------------------------------|
| | (Unaudited) | |
| Leasehold Improvements | \$ 844,360 | \$ 844,360 |
| Machinery and equipment | 1,508,074 | 1,355,986 |
| Computer and office equipment | 241,291 | 241,291 |
| Software | 326,992 | 326,992 |
| Furniture and fixtures | 114,564 | 114,564 |
| Leased equipment | — | 168,143 |
| | <u>3,035,281</u> | <u>3,051,336</u> |
| Less: Accumulated depreciation and amortization | <u>(2,251,339)</u> | <u>(1,840,207)</u> |
| | <u>\$ 783,942</u> | <u>\$ 1,211,129</u> |

No capital leases were entered into during the year ended December 31, 2015 or the nine month period ended September 30, 2016. Depreciation and amortization expense was \$411,132 and \$526,904 for the nine-month periods ended September 30, 2016 and 2015, respectively. There was no leased equipment at September 30, 2016 due to the discontinuation of the Market Validation Program.

At September 30, 2016 and December 31, 2015, substantially all of the property and equipment was located at the Company's corporate headquarters in the United States.

Accrued Liabilities

| | September 30, 2016 | December 31, 2015 |
|--------------------------------------|-----------------------|----------------------|
| | (Unaudited) | |
| Accrued payroll and related expenses | \$ 1,795,317 | \$ 1,457,534 |
| Accrued royalty | 1,740,520 | 1,226,973 |
| Accrued warranty | 181,000 | 217,000 |
| Accrued marketing | 286,620 | 165,600 |
| Accrued clinical expenses | 11,500 | 2,600 |
| Accrued legal | 67,200 | 112,000 |
| Capital lease payable, current | 21,814 | 33,909 |
| Deferred rent, current | 30,705 | 18,672 |
| Accrued other expenses | 378,642 | 338,153 |
| | <u>\$ 4,513,318</u> | <u>\$ 3,572,441</u> |

Accrued Warranty

The Company regularly reviews the accrued warranty balance and updates as necessary based on sales and warranty trends. The warranty accrual as of September 30, 2016 and December 31, 2015 consisted of the following activity:

| | |
|---|-------------------|
| Warranty accrual, December 31, 2014 | \$ 253,000 |
| Accruals for product warranty | 427,467 |
| Cost of warranty claims | (463,467) |
| Warranty accrual, December 31, 2015 | <u>\$ 217,000</u> |
| Accruals for product warranty | 303,738 |
| Cost of warranty claims | (339,738) |
| Warranty accrual, September 30, 2016 | <u>\$ 181,000</u> |

4. Fair Value of Financial Instruments

Fair Value Measurements are determined under a three-level hierarchy for fair value measurements that prioritizes the inputs to valuation techniques used to measure fair value, distinguishing between market participant assumptions developed based on market data obtained from sources independent of the reporting entity (the observable inputs) and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (the unobservable inputs). Fair value is the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses prices and other relevant information generated by market transactions involving identical or comparable assets. The Company also considers the impact of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity to identify transactions that are not orderly.

The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The three hierarchy levels are defined as follows:

- Level 1 Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities identical assets and liabilities;
- Level 2 Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly;

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The fair value of the Company's financial assets and liabilities measured on a recurring basis, as of September 30, 2016 and December 31, 2015, were as follows:

| | September 30, 2016 | | | |
|--------------------|--------------------|---------|-----------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Liabilities | | | | |
| Warrant liability | \$ — | \$ — | \$ 54,029 | \$ 54,029 |

| | December 31, 2015 | | | |
|--------------------|-------------------|---------|------------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Liabilities | | | | |
| Warrant liability | \$ — | \$ — | \$ 499,616 | \$ 499,616 |

There were no transfers between Level 1, 2 and 3 of the fair value hierarchy during the nine months ended September 30, 2016 and 2015.

Assumptions used in valuing the warrant liabilities are discussed in Note 10 below. The principal assumptions used, and their impact on valuations were as follows:

Stock Price - As a private company, there was no actively traded market for the Company's stock and the Company used commonly accepted valuation techniques such as the discounted cash flows, market comparables and recent actual stock sales to derive an estimate of the fair value of its stock. An increase in value of the stock will increase the value of the warrant liability. Upon closing of the Merger, the Company became a publicly traded company and began using its publicly traded stock price.

Risk-Free Interest Rate - This is the U.S. Treasury rate for the measurement date having a term equal to the weighted average expected remaining term of the instrument. An increase in the risk-free interest rate will increase the fair value of the warrant liability.

Expected Remaining Term - This is the period of time over which the instrument is expected to remain outstanding and is based on management's estimate, taking into consideration the remaining contractual life, historical experience and the possibility of liquidation. An increase in the expected remaining term will increase the fair value of the warrant liability.

Expected Volatility - This is a measure of the amount by which the Company's common stock price has fluctuated or is expected to fluctuate. The Company uses the historic volatility of a group of comparable peer publicly traded companies over the retrospective period corresponding to the expected remaining term of the instrument on the measurement date. An increase in the expected volatility will increase the fair value of the warrant liability. Since the Company is newly public, it does not have sufficient trading history to estimate its own volatility.

Dividend Yield - The Company has not made any dividend payments and does not plan to pay dividends in the foreseeable future. An increase in the dividend yield will decrease the fair value of the warrant liability.

The changes in the warrant liability are summarized below:

| | |
|---|-------------------|
| Fair value at December 31, 2014 | \$ 371,039 |
| Fair value of warrants issued during the year | 234,719 |
| Change in fair value recorded in interest and other income, net | (106,142) |
| Fair value at December 31, 2015 | <u>\$ 499,616</u> |
| Fair value of warrants issued during the year | 44,663 |
| Conversion to common stock warrants | (53,436) |
| Change in fair value recorded in interest and other income, net | (436,814) |
| Fair value at September 30, 2016 | <u>\$ 54,029</u> |

5. Related Party Transactions

Miramar Technologies, Inc. was formed at an incubator, The Foundry, LLC, or The Foundry, a company which provides seed capital and management services to its investees. Certain employees of The Foundry serve as members of the Company's Board of Directors (the "**Board**") and own shares of our common stock. The total amount reimbursed to The Foundry for services provided as members of the Board was \$46,976 and \$47,051, for the nine months ended September 30, 2016 and 2015, respectively.

In February 2008, Miramar Technologies, Inc. entered into a technology license and royalty agreement with The Foundry wherein Miramar Technologies, Inc. agreed to pay The Foundry a royalty of 1.5% of sales of the licensed products and 1.5% of the patented products, up to a maximum of \$30 million. In March 2013, the total royalty percentage increased from 1.5% to 3.0% due to the issuance of a patent covering certain products of the Company. The total amount payable to The Foundry as of September 30, 2016 and December 31, 2015 was \$1,740,520 and \$1,226,973, respectively, which included interest accrued at the annual interest rate of the prime rate quoted by the Wall Street Journal plus 1% beginning on the first day of the calendar quarter to which such payment relates. No royalties were paid during the nine months ended September 30, 2016 or in the year ended December 31, 2015.

6. Commitments and Contingencies

Indemnification Agreements

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 its technology. The term of these indemnification agreements is generally perpetual any time after the execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these arrangements is not determinable. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal.

The Company has entered into indemnification agreements with its directors and certain executive 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 and officers, other than liabilities arising from willful misconduct of the individual.

No liability associated with such indemnifications has been recorded at September 30, 2016 or December 31, 2015.

Legal Claims

On July 20, 2015, a lawsuit alleging product liability, breach of warranty and negligence was filed against the Company in the Orange County Superior Court. The plaintiff alleged, among other things, that the Company was liable to plaintiff for injuries suffered due to defects in a certain miraDry device. We believe that there is no merit to the claims against the Company and the Company intends to vigorously defend the lawsuit, but the outcome of any potential litigation matter is uncertain. Management does not believe that resolution of this matter will have a material negative effect on our operating results. As of September 30,

2016 or December 31, 2015, no amounts have been accrued related to the matters as we believe the risk of material loss to be remote.

In September 2016, the Company received a demand from an attorney in Japan who represents a terminated employee claiming wrongful termination. While we believe that the claim lacks legal basis and that we would prevail on the merits, the outcome is somewhat uncertain until the matter is finally resolved or adjudicated. The Company is insured, with a deductible payment immaterial to our operating results, to cover such claims.

Occasionally, the Company may be involved in claims and legal proceedings arising from the ordinary course of its business. The Company records a provision for a liability when it believes that it is probable that a liability has been incurred, and when the amount can be reasonably estimated. If these estimates and assumptions change or prove to be incorrect, it could have a material impact on the Company's consolidated financial statements. Contingencies are inherently unpredictable and the assessments of the value can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions.

Other than the foregoing, we are currently not aware of any other pending legal proceedings to which we are a party or of which any of our property is the subject, nor are we aware of any such proceedings that are contemplated by any governmental authority.

FDA Inspection

The FDA performed a routine inspection from July 25, 2016 through August 1, 2016. A Form FDA 483 listing one observation related to complaint handling and reporting and a second observation related to the documentation of CAPA activities was issued. The observations were corrected with a response letter submitted to FDA. FDA has indicated the issues will be reviewed during the next routine inspection.

Operating and Capital Leases

Rent expense under the Company's operating leases was \$429,685 and \$424,912 for the nine-month periods ended September 30, 2016 and 2015, respectively. The Company recognizes rent expense on a straight-line basis over the lease period. The difference between rent payable and rent expense on a straight-line basis is recorded as deferred rent and amortized over the period of the lease.

The aggregate future minimum lease payments under all leases are as follows:

| | <u>Operating Lease</u> | <u>Capital Leases</u> |
|---|------------------------|-----------------------|
| Three months ended December 31, 2016 | \$ 135,014 | \$ 5,256 |
| Year ending December 31, 2017 | 552,207 | 17,249 |
| Year ending December 31, 2018 | 568,773 | — |
| Year ending December 31, 2019 | 241,592 | — |
| Total minimum lease payments | <u>\$ 1,497,586</u> | <u>22,505</u> |
| Less: Amount representing interest | | (691) |
| Present value of minimum lease payments | | <u>21,814</u> |
| Less: current portion of capital leases | | (21,814) |
| Long term portion of capital leases | | <u>\$ —</u> |

7. Notes Payable

In August 2015, the Company refinanced the outstanding balance of the \$10 million loan and security agreement entered into in June 2013. The new agreement provided for the issuance of secured promissory notes in the aggregate principal amount of up to \$20 million to be drawn down in two additional tranches of \$5 million each, subject to certain financial milestones. The refinanced \$10 million promissory note accrues interest at 7.80% per annum and monthly interest payments commenced on September 1, 2015. Principal and interest payments will commence on January 1, 2017.

All borrowings under the agreement are collateralized by substantially all of the Company's assets. There are no significant financial covenants. The agreement contains a subjective acceleration clause. Failure to comply with the loan covenants may result in the acceleration of payment of all outstanding principal and interest amounts plus a prepayment fee. Due to the subjective acceleration clause, the outstanding notes payable are classified as current in the accompanying Consolidated Balance Sheets. As of September 30, 2016, the Company was in compliance with the debt covenants.

In December 2015, the Company entered into a note purchase agreement with existing private investors to draw down up to \$1.5 million for working capital purposes. The Company subsequently issued \$1.3 million of convertible promissory notes ("**December 2015 Notes**"). In February 2016, the Company entered into another note purchase agreement ("**February 2016 NPA**") with existing private investors to draw down up to \$2.7 million for working capital purposes. If the investors agreed to purchase the full amount available under the February 2016 NPA, the December 2015 Notes would be canceled and the February 2016 NPA would be increased by the outstanding principal and interest due on the December 2015 Notes. The Company subsequently canceled and reissued \$1.3 million of the December 2015 Notes and issued \$2.7 million of convertible promissory notes ("**February 2016 Notes**"). In May 2016, the Company increased the aggregate principal amount of the notes that may be issued under the February 2016 Notes from \$2.7 million to \$4.85 million and subsequently issued \$2.0 million of additional convertible promissory notes.

Per the terms of the notes, interest was accrued at 8% per year and were due at the earliest of a liquidation event or one year from date of issuance. In the event of a qualified equity financing, the outstanding principal and interest on the notes payable would automatically convert into shares of the qualified financing shares at a price equal to the price per share paid by the investors in the qualified equity financing. In the event of a non-qualified financing, the shares would be converted at the option of the majority of the investors. If there was no financing event prior to the maturity date, the outstanding principal and interest on the notes payable would automatically convert into shares of Series D preferred stock at \$21.64 per share.

In June 2016, in connection with the Merger, \$6 million of outstanding notes were converted into 2,828,469 shares of common stock. The notes that were not converted according to their original conversion terms incurred a loss on debt conversion of \$8,062,001.

The Company entered into short term financing agreements for insurance premiums with nine month payment terms and interest rates ranging from 2.25% to 4.95%. The outstanding balance of the financing agreements was \$217,038 at September 30, 2016 and \$40,889 at December 31, 2015.

Annual future principal payments under the notes payable are as follows:

| | |
|--------------------------------------|---------------------|
| Three months ended December 31, 2016 | \$ 131,293 |
| Year ending December 31, 2017 | 3,477,349 |
| Year ending December 31, 2018 | 3,665,814 |
| Year ending December 31, 2019 | 2,942,582 |
| Total payments | <u>10,217,038</u> |
| Less: Unamortized debt discount | (277,777) |
| Carrying value of notes payable | <u>\$ 9,939,261</u> |

8. Common Stock

The Company's amended Articles of Incorporation authorize the Company to issue 100,000,000 shares of \$0.001 common stock. The common stockholders are entitled to elect three members to the Board. The holders of common stock are also entitled to receive dividends whenever funds are legally available, as, when, and if declared by the Board. As of September 30, 2016, no dividends have been declared to date. In connection with the Merger, 1,568,726 shares of common stock were issued in exchange for cash proceeds, net of issuance costs, of \$7,057,177 and 900,000 shares were issued to the shareholders of KTL Bamboo International Corp.

At September 30, 2016, the Company had reserved common stock for future issuance as follows:

| | |
|---|------------------|
| Exercise of options under stock plan | 1,378,546 |
| Issuance of options under stock plan | 103,703 |
| Exercise of common stock warrants | 84,428 |
| Common stock reserved for future issuance | <u>1,566,677</u> |

9. Convertible Preferred Stock

In June 2016, upon the closing of the Merger, all of the Company's outstanding preferred stock of 3,564,629 shares was converted into 3,611,857 shares of common stock and the authorized preferred stock was decreased to 5,000,000 shares of "blank check" preferred stock, par value of \$0.001 per share.

Convertible preferred stock at December 31, 2015 consisted of the following:

| Series | Shares Authorized | Shares Issued and Outstanding | Per Share Liquidation Preference | Aggregate Liquidation Amount | Carrying Value |
|----------|-------------------|-------------------------------|----------------------------------|------------------------------|----------------------|
| Series A | 2,100,000 | 147,864 | \$ 13.53 | \$ 2,000,000 | \$ 1,966,935 |
| Series B | 9,000,000 | 589,784 | 24.35 | 14,359,244 | 14,261,779 |
| Series C | 23,000,000 | 1,625,203 | 21.64 | 35,171,735 | 35,171,735 |
| Series D | 17,000,000 | 1,201,778 | 21.64 | 26,008,207 | 26,008,207 |
| | <u>51,100,000</u> | <u>3,564,629</u> | | <u>\$ 77,539,186</u> | <u>\$ 77,408,656</u> |

10. Stock Warrants

From June to August 2016, the Company issued warrants to purchase 17,504 shares of the common stock in conjunction with the Merger at an exercise price of \$5.00. The Company determined the value of the warrants on the date of issuance to be \$44,663 using the Black-Scholes option pricing model. Assumptions used were dividend yield 0%, fair value of common stock ranging from \$5.00 to \$6.10, volatility of 56%, risk-free interest rate ranging from 1.01% to 1.23%, and a contractual life of five years. The fair value of the warrants was recorded as a warrant liability. The estimated value, which represents issuance costs, is recorded to additional paid in capital. The warrants expire 5 years from the issuance date.

Total outstanding warrants as of September 30, 2016 are as follows:

| | Number of Warrants | Exercise Price | Fair Value at date of issuance |
|--|--------------------|----------------|--------------------------------|
| <i>Equity classified</i> | | | |
| November 2010 warrants issued with Series C convertible preferred stock | 12,117 | \$ 21.64 | \$ 212,409 |
| January 2011 warrants issued with Series C convertible preferred stock | 19,042 | 21.64 | 259,355 |
| December 2011 warrants issued with Series A convertible preferred stock | 1,109 | 13.53 | 6,930 |
| June 2013 warrants issued in conjunction with note purchase agreement | 9,241 | 21.64 | 152,750 |
| April 2014 warrants issued in conjunction with drawdown on note purchase agreement | 9,242 | 21.64 | 149,250 |
| August 2015 warrants issued with refinance of note purchase agreement | 16,173 | 21.64 | 234,719 |
| <i>Liability classified</i> | | | |
| June to August 2016 warrants issued with in conjunction with merger | 17,504 | 5.00 | 44,663 |
| Total outstanding warrants | <u>84,428</u> | | |

For the nine month period ended September 30, 2016 and 2015, respectively, \$436,814 and \$92,596 were recorded to other income from the revaluation of the warrants to fair market value. In June 2016, in connection with the Merger, 66,924 of the outstanding warrants valued at \$53,436 were reclassified from warrant liability to additional paid-in capital in the accompanying consolidated balance sheets.

The following assumptions were used in the Black-Scholes model to value the outstanding warrants:

| | <u>Nine Months Ended September 30, 2016</u> | <u>Year Ended December 31, 2015</u> |
|-------------------------|---|---|
| Expected term (years) | 4.68 - 4.85 | .94 - 9.60 |
| Expected volatility | 53% | 57% |
| Risk-free interest rate | 1.14% | .65% - 2.27% |
| Annual dividend rate | —% | —% |
| Stock Price | \$6.10 | \$11.50- \$22.05 |

11. Stock Option Plan

In June 2016, the Board approved repricing of outstanding stock options to current employee and consultant option holders. In exchange for extending the vesting of options for an additional six months, the price of the outstanding stock grants was amended to \$5.00 per share. The offer expired on July 12, 2016. Outstanding option shares of 744,133, ranging in grant prices from \$6.36 to \$8.66, were approved by the Board on July 14, 2016 and were repriced as part of the program. The expense related to the repricing during the quarter ended September 30, 2016 was \$173,512.

The following table summarizes activity under the 2006 Stock Option Plan (the “**Plan**”) for the nine month period ended September 30, 2016 and year ended December 31, 2015:

| | Outstanding Options | | |
|------------------------------------|----------------------------|-------------------|---------------------------------|
| | Shares Available for Grant | Number of Options | Weighted Average Exercise Price |
| Balance, December 31, 2014 | 66,354 | 629,559 | \$ 6.49 |
| Additional shares reserved | 221,797 | | |
| Options granted | (271,414) | 271,414 | 7.57 |
| Options exercised | | (13,246) | 3.92 |
| Options forfeited | 31,823 | (31,823) | 7.17 |
| Balance, December 31, 2015 | 48,560 | 855,904 | \$ 6.76 |
| Additional shares reserved | 599,535 | | |
| Options granted | (563,810) | 563,810 | 5.63 |
| Options exercised | | (21,750) | 2.28 |
| Options forfeited | 19,418 | (19,418) | 7.38 |
| Balance, September 30, 2016 | 103,703 | 1,378,546 | \$ 5.21 |

The following table summarizes information about stock options outstanding at September 30, 2016:

| Options Outstanding | | | | | Options Vested | | |
|---------------------|--------------------|--|---------------------------------|---------------------------|----------------|---------------------------------|---------------------------|
| Exercise Price | Number Outstanding | Weighted Average Remaining Contractual Life (in years) | Weighted Average Exercise Price | Aggregate Intrinsic Value | Number Vested | Weighted Average Exercise Price | Aggregate Intrinsic Value |
| \$ 1.3600 | 14,856 | 1.16 | \$ 1.3600 | \$ 70,417 | 14,856 | \$ 1.3600 | \$ 70,417 |
| 2.4400 | 8,501 | 1.55 | 2.4400 | 31,114 | 8,501 | 2.4400 | 31,114 |
| 4.3300 | 29,553 | 3.35 | 4.3300 | 52,309 | 29,553 | 4.3300 | 52,309 |
| 5.0000 | 743,736 | 7.57 | 5.0000 | 818,110 | 355,652 | 5.0000 | 391,217 |
| 5.5700 | 433,615 | 9.90 | 5.5700 | 229,816 | 63,209 | 5.5700 | 33,501 |
| 5.5925 | 112,651 | 9.90 | 5.5925 | 57,170 | 2,345 | 5.5925 | 1,190 |
| 6.3600 | 20,248 | 2.12 | 6.3600 | — | 20,248 | 6.3600 | — |
| 6.6300 | 2,290 | 7.79 | 6.6300 | — | 2,290 | 6.6300 | — |
| 7.4400 | 8,166 | 5.35 | 7.4400 | — | 8,166 | 7.4400 | — |
| 7.5800 | 1,289 | 8.79 | 7.5800 | — | 1,289 | 7.5800 | — |
| 8.6600 | 3,641 | 6.43 | 8.6600 | — | 3,641 | 8.6600 | — |
| | 1,378,546 | 8.20 | \$ 5.2100 | \$ 1,258,936 | 509,750 | \$ 5.0200 | \$ 579,748 |

Stock-Based Compensation Associated with Awards to Employees

During the nine month period ended September 30, 2016, the Company granted stock options to employees to purchase 563,810 shares of common stock with a weighted-average grant date fair value of \$5.63. Stock-based employee compensation expense recognized during the nine-month periods ended September 30, 2016 and 2015 was \$748,807 and \$425,303, respectively. As of September 30, 2016, there were total unrecognized compensation costs of \$1,607,851 related to these stock options. These costs are expected to be recognized over a period of approximately 2.59 years.

The total fair value of employee options vested during the nine-month periods ended September 30, 2016 and 2015 was \$666,843 and \$587,843, respectively.

The Company estimated the fair value of stock options using the Black-Scholes option valuation model. The fair value of employee stock options is being amortized on a straight-line basis over the requisite service period of the awards. The fair value of employee stock options granted was estimated using the following weighted average assumptions:

| | <u>Nine months ended September 30, 2016</u> | <u>Year ended December 31, 2015</u> |
|--------------------------|---|---|
| Expected term (in years) | 5.22 years | 5.65 years |
| Expected volatility | 46% | 49% |
| Risk-free interest rate | 1.17%-1.54% | 1.43% -1.74% |
| Dividend yield | —% | —% |

Stock-Based Compensation Associated with Awards to Non-employees

In April 2015, the Company granted stock options to a board advisor to purchase 99,312 shares of common stock at \$7.57. In July 2016, these shares were repriced to \$5.00. In August 2016, the Company granted stock options to purchase an additional 40,608 shares of common stock at \$5.57 to a board advisor and 112,651 shares of common stock at \$5.5925 to the Company's Board of Directors. Stock-based compensation expense recognized during the nine-month periods ended September 30, 2016 and 2015 was \$104,866 and \$39,489, respectively. As of September 30, 2016, there was total unrecognized compensation costs of \$580,947 related to these stock options. These costs are expected to be recognized over a period of approximately 3.29 years.

The fair value of the stock options granted to non-employees is calculated at each reporting date using the Black-Scholes options pricing model. The fair value of stock options granted to non-employees was estimated using the following weighted average assumptions:

| | <u>Nine months ended September 30, 2016</u> | <u>Year ended December 31, 2015</u> |
|--------------------------|---|---|
| Expected term (in years) | 5.97 years | 5.67 years |
| Expected volatility | 47% | 49% |
| Risk-free interest rate | 1.29% -1.35% | 1.43% |
| Dividend yield | —% | —% |

12. Employee Benefit Plan

The Company sponsors a 401(k) plan covering all employees. Contributions made by the Company are discretionary and are determined annually by the Board. The Company accrues for a 100% match for employee contributions up to \$1,000. As of September 30, 2016 and December 31, 2015, the Company had accrued \$41,496 and \$48,183, respectively, for employer contributions.

13. Net Loss per Share

The Company's basic and diluted net loss per share are as follows:

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|--|---|----------------|--|-----------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Net loss | \$ (3,921,958) | \$ (3,667,206) | \$ (17,004,551) | \$ (11,693,609) |
| Accretion of redeemable convertible preferred stock | — | (20,000) | — | (63,117) |
| Net loss attributable to common stockholders | (3,921,958) | (3,687,206) | (17,004,551) | (11,756,726) |
| Weighted-average common shares used in computing net loss per share attributable to common stockholders, basic and diluted | 9,256,362 | 385,271 | 4,030,810 | 385,271 |
| Net loss per share attributable to common stockholders, basic and diluted | \$ (0.42) | \$ (9.57) | \$ (4.22) | \$ (30.52) |

The following weighted-average common stock equivalents were excluded from the calculation of diluted net loss per share for the periods presented due to their anti-dilutive effect:

| | <u>Three Months Ended September 30,</u> | | <u>Nine Months Ended September 30,</u> | |
|--|---|-------------|--|-------------|
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| Convertible preferred stock (if converted) | — | 3,611,857 | — | 3,611,857 |
| Stock warrants | 84,428 | 66,924 | 84,428 | 66,924 |
| Options to purchase common stock | 1,378,546 | 873,107 | 1,378,546 | 873,107 |

14. Subsequent Events

Management has evaluated all transactions and events through November 9, 2016, the date on which these financial statements were issued, and did not note any items that would adjust the financial statements or require additional disclosures.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis should be read in conjunction with the historical financial statements and the related notes thereto contained in this Report. The management's discussion and analysis contains forward-looking statements, such as statements of our plans, objectives, expectations and intentions. Any statements that are not statements of historical fact are forward-looking statements. When used, the words "believe," "plan," "intend," "anticipate," "target," "estimate," "expect" and the like, and/or future tense or conditional constructions ("will," "may," "could," "should," etc.), or similar expressions, identify certain of these forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including those under "Risk Factors" discussed in our Current Report on Form 8-K filed with the SEC on June 13, 2016, which is incorporated by reference herein, that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. The Company's actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of several factors. The Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report.

References in this section to "Miramar," "we," "us," "our," "the Company" and "our Company" refer to Miramar Labs, Inc. and its consolidated subsidiary, Miramar Technologies, Inc.

On June 7, 2016, our wholly-owned subsidiary, Miramar Acquisition Corp., a corporation formed in the State of Delaware on June 2, 2016, or the Acquisition Sub, merged with and into Miramar Technologies, Inc., a corporation incorporated on April 2006 in the state of Delaware (the "**Merger**"). Pursuant to the Merger, Miramar Technologies, Inc. was the surviving corporation and became Miramar Labs, Inc.'s wholly-owned subsidiary. All of the outstanding stock of Miramar Technologies, Inc. was converted into shares of our common stock.

Prior to the Merger and pursuant to the Split-Off Agreement, we transferred our pre-Merger assets and liabilities to our pre-Merger majority stockholder, in exchange for the surrender by him and the cancellation of 3,603,602 shares of our common stock. This transaction was accounted for as a reverse acquisition and recapitalization with Miramar Technologies, Inc. being the accounting acquirer.

As a result of the Merger and Split-Off, we discontinued our pre-Merger business and acquired the business of Miramar and will continue the existing business operations of Miramar as a publicly-traded company under the name Miramar Labs, Inc.

As the result of the Merger and the change in business and operations of the Company, a discussion of the past financial results of the Company is not pertinent, and under applicable accounting principles, the historical financial results of Miramar, the accounting acquirer, prior to the Merger are considered the historical financial results of the Company.

The following discussion highlights Miramar's results of operations and the principal factors that have affected our financial condition as well as our liquidity and capital resources for the periods described, and provides information that management believes is relevant for an assessment and understanding of the statements of financial condition and results of operations presented herein. The following discussion and analysis are based on Miramar's audited and unaudited financial statements contained in this Report, which we have prepared in accordance with GAAP. You should read the discussion and analysis together with such financial statements and the related notes thereto.

Basis of Presentation

The audited consolidated financial statements of Miramar for the fiscal years ended December 31, 2015 and 2014, (as filed on Form 8-K on June 13, 2016, as amended on June 14, 2016) and the unaudited consolidated condensed financial statements of Miramar for the nine months ended September 30, 2016 and 2015, contained herein include a summary of our significant accounting policies and should be read in conjunction with the discussion below. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such unaudited interim periods have been included in these unaudited financial statements. All such adjustments are of a normal recurring nature.

Company Overview

We are a medical technology company focused on developing and commercializing products utilizing our proprietary microwave technology platform.

Our first commercial product, the miraDry System, is designed to ablate axillary, or underarm, sweat glands through the precise and non-invasive delivery of energy to the region where sweat glands reside. The energy generates heat which results in thermolysis of the sweat glands. At the same time, a continuous hydro-ceramic cooling system protects the superficial dermis and keeps the heat focused at the sweat glands. Because sweat glands do not regenerate after the treatment, we believe the results are lasting. Microwaves are the ideal technology as the energy can be focused directly at the fat and dermal junction where the glands reside.

We received clearance from the FDA in January 2011 and received CE mark approval in December 2013 to market miraDry for the treatment of primary axillary hyperhidrosis and for axillary hair removal in June 2015. In October 2016, we received clearance from the FDA to market miraDry in the United States as a device that may reduce underarm odor when used for the treatment of primary axillary hyperhidrosis. We sell our miraDry System to dermatologists, plastic surgeons, aesthetic specialists and physicians specializing in the treatment of hyperhidrosis. We generate revenue from sales of our miraDry System and the sale of consumables to our customers who are required to use a new consumable for each patient they treat.

As of September 30, 2016, we had an installed base of approximately 830 miraDry Systems worldwide and over 80,000 miraDry procedures have been performed. We generated revenues of \$17.2 million for the year ended December 31, 2015, and \$4.3 million and \$16.0 million for the three and nine months ended September 30, 2016, respectively. We had net losses of \$14.5 million, \$3.9 million, and \$17.0 million, respectively, for the same periods. The net loss for the nine months ended September 30, 2016 included a non-cash charge of \$8.0 million for the loss associated with the debt conversion as part of the APO transaction.

We utilize our direct sales organization to selectively market and sell miraDry in our North American market, which includes the United States and Canada. In our markets located outside of North America, we market and sell miraDry through a network of distributors. Our sales force and distributors target dermatologists, plastic surgeons, aesthetic specialists and physicians specializing in the treatment of hyperhidrosis who express a willingness to position miraDry as a premium and differentiated treatment and to participate in our global marketing and support programs.

Revenues from markets outside of North America comprised 57% of our total revenues for the year ended December 31, 2015 and 54% for the nine months ended September 30, 2016. We have agreements with multiple distributors with the authorization to sell and market in over 40 international countries outside of North America in Asia-Pacific, Europe, the Middle East and South America.

We are driving growth in miraDry procedures through our physician marketing programs, which provide physicians with sales training, practice marketing, and support services through our direct selling in North America. For sales outside of North America, we are working with our distributors by sharing our marketing materials and programs that may be applicable to certain markets in addition to investing in marketing support in each of these markets. After we establish a significant installed base of miraDry Systems in specific markets, we plan to use targeted consumer marketing, advertising, and promotional activities in these markets to increase demand for miraDry.

Our business is dependent upon the success of miraDry, and we cannot guarantee that we will be successful in significantly expanding physician and patient demand for miraDry procedures. In addition, we will continue to incur significant expenses for the foreseeable future as we expand our commercialization and other business activities, and as a result, we cannot guarantee that we will be able to achieve or maintain our profitability.

We generated revenue of \$4.3 million and \$3.8 million, and had net losses of \$3.9 million and \$3.7 million, for the three months ended September 30, 2016 and 2015, respectively.

We expect to continue to incur significant expenses and operating losses for the foreseeable future. We expect our expenses will increase in connection with our ongoing activities as we:

- increase sales and marketing personnel to support our targeted sales growth particularly in the United States and expansion in Asia-Pacific;

- add personnel and outside services to support our product development and clinical efforts;
- seek regulatory approval of new products and indications in the United States and in foreign countries;
- scale our manufacturing operations; and
- operate as a public company.

Accordingly, we may seek to fund our operations through public or private equity, debt financings or other sources. However, we may be unable to raise additional funds or enter into such other arrangements when needed on favorable terms, if at all. Our failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on our financial condition and our ability to develop enhancements to and integrate new applications into our miraDry System. Such conditions raise substantial doubt about our ability to continue as a going concern.

Components of Statements of Operations

Revenue

Product revenue consists of sales of miraDry Systems, as well as consumables (referred to as “**bioTips**”), accessories, warranty, service and freight charges, net of returns, discounts and allowances. Once a sales order is negotiated and received by customer service, the product can be shipped generally at the time the order is received or when the financial considerations are met.

Standard warranties are offered at no cost to customers to cover parts, labor and maintenance for up to two years for product defects. In addition, we offer extended warranty or post-installation service and support contracts that provide various levels of service support, which enables our customers to select the level of on-going support services, including parts and labor, which they require. These post-installation contracts are for a period of one to two years. Revenue for extended warranty and service contracts is recognized on a straight-line basis over the term during which the contracted services are provided.

Cost of Revenue

Product cost of revenue primarily consists of the cost of materials, labor and overhead associated with the manufacture of the miraDry Systems and bioTips, as well as variable manufacturing costs and royalty payments to The Foundry.

We expect our cost of revenue per unit to decrease as we continue to scale our operations, improve product designs and work with our third-party suppliers to lower costs.

Operating Expenses

Research and Development. Research and development (R&D) expenses consist primarily of compensation and related costs for personnel, including stock-based compensation and employee benefits. Other significant R&D costs include third-party consulting services, laboratory supplies, research materials and supplies, and depreciation and amortization of medical and computer equipment and software. We expense R&D expenses as incurred. As we continue to invest in improving the miraDry System and developing our technology for new products, we expect R&D expenses to increase in absolute dollars but to decline as a percent of revenue.

Sales and Marketing. Sales and marketing expenses consist primarily of compensation and related costs for personnel, including stock-based compensation, employee benefits and travel associated with our direct sales force, practice development managers, sales management and our marketing personnel. Sales and marketing expenses also include costs associated with our support of business development efforts with distributors in Europe/Middle East and Asia-Pacific, and costs related to trade shows and marketing programs. Marketing programs include reimbursement to customers for qualified submissions of marketing expenses with a separately identifiable benefit, and where they provide us evidence of payment. We expense sales and marketing costs as incurred. We expect sales and marketing expenses to increase in future periods as we grow revenue and expand our sales force and our marketing organization, in addition to increased participation in global trade shows and marketing programs, including consumer marketing.

General and Administrative. Our general and administrative expenses consist primarily of compensation and related costs for personnel, including stock-based compensation, employee benefits and travel. In addition, general and administrative expenses

include the medical device tax fee (through December 2015), and third-party consulting, which include legal, audit, accounting and tax services. We expect general and administrative expenses to increase in absolute dollars following the consummation of the Merger due to additional legal, accounting, insurance, investor relations and other costs associated with being a public company, as well as other costs associated with growing our business.

Interest Income. Interest income consists primarily of interest income received on our cash and cash equivalents.

Interest Expense. Interest expense consists primarily of interest and amortization of related costs associated with the senior debt with Silicon Valley Bank Financial Group and Oxford Finance, or together, SVB/Oxford. Additionally it includes interest expense associated with financing leases for certain equipment in our business, short term financing agreements for insurance premiums, bridge loan financing and royalty payables with The Foundry.

Loss on Debt Conversion. The loss on debt conversion consists of losses incurred upon the conversion of convertible promissory notes into common stock in conjunction with the Merger in June 2016.

Other Income, Net. Other income, net consists primarily of the re-measurement of outstanding convertible preferred stock warrants at each balance sheet date. Additionally, it includes gains and losses from the disposal of fixed assets and foreign currency exchange gains and losses.

Results of Operations

The following tables set forth our results of operations for the periods presented:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|----------------------------------|----------------|---------------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| | (Unaudited) | | (Unaudited) | |
| Revenue | \$ 4,303,307 | \$ 3,793,241 | \$ 16,035,338 | \$ 11,822,320 |
| Cost of revenue | 1,787,770 | 1,742,357 | 7,211,110 | 5,745,297 |
| Gross margin | 2,515,537 | 2,050,884 | 8,824,228 | 6,077,023 |
| Operating expenses: | | | | |
| Research and development | 817,488 | 1,192,019 | 2,562,481 | 3,941,360 |
| Selling and marketing | 3,448,976 | 2,736,610 | 9,975,248 | 8,980,820 |
| General and administrative | 1,871,739 | 1,313,436 | 4,716,991 | 3,907,822 |
| Total operating expenses: | 6,138,203 | 5,242,065 | 17,254,720 | 16,830,002 |
| Loss from operations | (3,622,666) | (3,191,181) | (8,430,492) | (10,752,979) |
| Interest income | 4,035 | 1,214 | 7,764 | 5,001 |
| Interest expense | (285,615) | (481,194) | (948,662) | (1,025,013) |
| Loss on debt conversion | — | — | (8,062,001) | — |
| Other income, net | (9,929) | 11,252 | 438,148 | 88,104 |
| Loss before provision for income taxes | (3,914,175) | (3,659,909) | (16,995,243) | (11,684,887) |
| Provision for income taxes | (7,783) | (7,297) | (9,308) | (8,722) |
| Net and comprehensive loss | (3,921,958) | (3,667,206) | (17,004,551) | (11,693,609) |
| Accretion of redeemable convertible preferred stock | — | (20,000) | — | (63,117) |
| Net loss attributable to common stockholders | \$ (3,921,958) | \$ (3,687,206) | \$ (17,004,551) | \$ (11,756,726) |
| Net loss per share attributable to common stockholders, basic and diluted | \$ (0.42) | \$ (9.57) | \$ (4.22) | \$ (30.52) |

Comparison of the Three and Nine Months Ended September 30, 2016 and 2015

Revenue

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|-----------------|----------------------------------|--------------|------------|---------------------------------|---------------|--------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Capital systems | \$ 2,175,900 | \$ 1,979,742 | \$ 196,158 | \$ 8,635,335 | \$ 6,196,157 | \$ 2,439,178 |
| Consumable | 1,989,415 | 1,669,250 | 320,165 | 6,934,420 | 5,228,532 | 1,705,888 |
| Other | 137,992 | 144,249 | (6,257) | 465,583 | 397,631 | 67,952 |
| Total revenue | \$ 4,303,307 | \$ 3,793,241 | \$ 510,066 | \$ 16,035,338 | \$ 11,822,320 | \$ 4,213,018 |

Total revenue during the three and nine months ended September 30, 2016 increased \$0.5 million and \$4.2 million, respectively compared to the three and nine months ended September 30, 2015. Sales of capital systems increased by \$0.2 million and \$2.4 million for these three and nine months ended September 30, 2015, respectively, over the same period in the prior year. North America capital systems sales increased by \$0.3 million and \$0.7 million, for the three and nine months ended September 30, 2016 as compared to the same periods for 2015 as we continued to see momentum of system sales as a result of increased market awareness. Asia-Pacific capital sales increased by \$0.8 million and \$1.6 million for the three and nine months ended September 30, 2016 as compared to the same periods for 2015 primarily due to shipments to China. Sales of consumables increased by \$0.3 million and \$1.7 million for the three and nine months ended September 30, 2016 as compared to the same periods for 2015 primarily due to increased utilization in North America and Europe/Middle East. Other revenue, which is primarily for extended warranty agreements and service contracts, reflected growth of 17.1% for the nine months ended September 30, 2016 as compared to the same period for 2015, which offset a quarterly decline of 4.3% for the three months ended September 30, 2016 as compared to the same period in 2015. The nine month year over year increase was due to a larger number of extended warranty contracts which offset the quarterly decrease which was due to expiration of extended warranties, primarily in Asia-Pacific.

| | Three months ended September 30, | | | Nine months ended September 30, | | |
|--------------------|----------------------------------|--------------|------------|---------------------------------|---------------|--------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| North America | \$ 2,402,739 | \$ 1,722,816 | \$ 679,923 | \$ 7,456,080 | \$ 5,148,209 | \$ 2,307,871 |
| Asia-Pacific | 1,362,164 | 1,219,416 | 142,748 | 5,568,435 | 3,899,788 | 1,668,647 |
| Europe/Middle East | 520,820 | 746,961 | (226,141) | 2,954,167 | 2,515,065 | 439,102 |
| South America | 17,584 | 104,048 | (86,464) | 56,656 | 259,258 | (202,602) |
| Total revenue | \$ 4,303,307 | \$ 3,793,241 | \$ 510,066 | \$ 16,035,338 | \$ 11,822,320 | \$ 4,213,018 |

Total revenue for the three and nine months ended September 30, 2016, continued to be driven primarily from North America and Asia-Pacific which represented collectively 87% and 81% of the total revenue, respectively. North America revenue for the three and nine months ended September 30, 2016 grew 39% and 45%, respectively, as compared to the same periods in 2015. Growth for each of these periods was driven by both strong new capital system placements and increased consumable utilization. Capital system sales growth was primarily attributed to both a greater number of units placed and higher average selling prices. Consumable sales growth was primarily attributed to increasing utilization being driven by increasing consumer awareness through expanded marketing efforts. Asia-Pacific revenue for the three and nine months ended September 30, 2016 grew 12% and 43%, respectively, as compared to the same periods in 2015. The growth for both periods was due to increased capital system sales offset partially by lower consumable sales due primarily to the change in distributors for certain countries. Europe/Middle East revenue for the three months ended September 30, 2016 declined 30% as compared to the same period in 2015 primarily due to fewer console system sales due to the typically slow third quarter and the stronger than expected results from our second quarter. Revenue for the nine months ended September 30, 2016 grew 17% as compared to the same period in 2015 which was all attributed to very strong consumable demand, partially offset by a small decline in capital system sales.

Cost of Revenue/Gross Margin

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------|----------------------------------|--------------|-------------|---------------------------------|--------------|--------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Capital systems cost of revenue | \$ 1,480,508 | \$ 1,509,278 | \$ (28,770) | \$ 6,086,543 | \$ 5,052,704 | \$ 1,033,839 |
| Consumable cost of revenue | 181,979 | 124,813 | 57,166 | 655,540 | 352,154 | 303,386 |
| Royalty | 125,283 | 108,266 | 17,017 | 469,027 | 340,439 | 128,588 |
| Total cost of revenue | \$ 1,787,770 | \$ 1,742,357 | \$ 45,413 | \$ 7,211,110 | \$ 5,745,297 | \$ 1,465,813 |
| Gross margin % | 58.5% | 54.1% | 4.4% | 55.0% | 51.4% | 3.6% |

Gross margin percentage for the three and nine months ended September 30, 2016 was 58.5% and 55.0%, reflecting an increase over the same prior year periods of 4.4% and 3.6%. The increase in gross margin for both the third quarter and year-to-date is primarily attributable to a higher percentage of sales for North America and Asia-Pacific in 2016, where we have higher selling prices, as well as lower cost of revenue per unit of our capital systems due to higher production volumes and favorable labor efficiencies in 2016 as compared to 2015.

We currently expect that cost of revenue on current orders will show improvements from historic costs due to scaling of our operation closer to the optimal capacity of our manufacturing facility, introducing cost improvements from R&D, and increasing our production efficiencies.

Operating Expenses

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------------------|----------------------------------|--------------|--------------|---------------------------------|---------------|----------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Research and development | 817,488 | 1,192,019 | \$ (374,531) | 2,562,481 | 3,941,360 | \$ (1,378,879) |
| Selling and marketing | 3,448,976 | 2,736,610 | \$ 712,366 | 9,975,248 | 8,980,820 | \$ 994,428 |
| General and administrative | 1,871,739 | 1,313,436 | \$ 558,303 | 4,716,991 | 3,907,822 | \$ 809,169 |
| Total operating expenses | \$ 6,138,203 | \$ 5,242,065 | \$ 896,138 | \$ 17,254,720 | \$ 16,830,002 | \$ 424,718 |

Research and Development. Research and development (R&D) expenses during the three and nine months ended September 30, 2016 totaled \$0.8 million and \$2.6 million, respectively. This reflects a decrease of \$0.4 million and \$1.4 million compared to the three and nine months ended September 30, 2015, respectively. This decrease was primarily attributable to lower headcount and the associated employee related expenses, outside services and supplies due to reduced activities associated with clinical studies.

Selling and Marketing. Selling and marketing expenses during the three and nine months ended September 30, 2016 totaled \$3.4 million and \$10.0 million, respectively. This reflects an increase of \$0.7 million and \$1.0 million, compared to the three and nine months ended September 30, 2015, respectively. This increase was primarily attributable to an increase in compensation, travel and entertainment and marketing expenses associated with higher sales.

General and Administrative. General and administrative expenses during the three and nine months ended September 30, 2016 totaled \$1.9 million and \$4.7 million, respectively. This represents an increase of \$0.6 million and \$0.8 million, compared to the three and nine months ended September 30, 2015. This increase was primarily due to increased outside contractor and support costs related to our alternative public offering and other public company related costs.

Interest Expense

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|------------------|----------------------------------|------------|--------------|---------------------------------|--------------|-------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Interest expense | \$ 285,615 | \$ 481,194 | \$ (195,579) | \$ 948,662 | \$ 1,025,013 | \$ (76,351) |

Interest expense decreased by \$0.2 million and \$0.1 million during the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015, respectively. The decrease was due to the refinancing of the SVB/Oxford debt in August 2015 which was partially offset by interest expense on convertible note agreements with current investors, which were converted in June 2016 to common stock in conjunction with the Merger.

Other Income, Net

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------|----------------------------------|-----------|-------------|---------------------------------|-----------|-------------|
| | 2016 | 2015 | Change | 2016 | 2015 | Change |
| Other income (expense), net | \$ (9,929) | \$ 11,252 | \$ (21,181) | \$ 438,148 | \$ 88,104 | \$ 350,044 |
| Loss on debt conversion | — | — | — | (8,062,001) | — | (8,062,001) |

Other income (expense), net, increased by \$0.4 million during the nine months ended September 30, 2016, as compared to the same period in 2015, primarily due to the revaluation of the convertible preferred stock warrants in conjunction with the Merger in June 2016. In the three months ended September 30, 2016, other income (expense), net, decreased slightly as compared to the same period in 2015, due to a decrease in outstanding convertible stock warrants, net of an increase in stock price. In the three months ended June 30, 2016 and nine months ended September 30, 2016, we also recorded a non-recurring non-cash charge for the loss on the conversion of debt to equity as part of our alternative public offering that was completed in June.

Liquidity and Capital Resources

Since our inception in 2006 as a Delaware corporation, we have incurred significant net losses and negative cash flows from operations. During 2015 and the nine months ended September 30, 2016, we had net losses of \$14.5 million and \$17.0 million, respectively. At September 30, 2016, we had an accumulated deficit of \$110.5 million.

As discussed in the audit report for the year ended December 31, 2015, these factors raise substantial doubt about our ability to continue as a going concern. At September 30, 2016, we had cash and cash equivalents of \$6.1 million. To date, we have financed our operations principally through private placements of our preferred stock, issuances of senior secured debt and receipts of customer deposits for new orders and payments from customers for systems sold. Through September 30, 2016, we have received proceeds of \$100.5 million from the issuance of shares of our preferred and common stock.

We expect that the Company will need to obtain additional funding in the form of debt financing or additional equity issuances to make strategic investments in, and continue to operate, its business. However, there can be no assurance that such efforts will be successful or that, in the event that they are successful, the terms and conditions of such financing will be favorable. If the Company's revenue levels from its products are not sufficient or if the Company is unable to secure additional funding when desired, the Company may need to delay the development, commercialization and marketing of its products and significantly scale back its business and operations. The Company's ultimate success will largely depend on its ability to successfully commercialize its products and its ability to raise additional funding.

If we raise additional funds by issuing equity securities, our stockholders would experience dilution. Additional debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any additional debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders and require significant debt service payments, which diverts resources from other activities. Additional financing may not be available at all, or in amounts or on terms acceptable to us. If we are unable to obtain additional financing, we may be required to delay the development, commercialization and marketing of our products and significantly scale back our business and operations.

Loan and Security Agreement

On August 7, 2015, we restructured our loan agreement from June 2014, and entered into a new loan and security agreement (the “**Loan Agreement**”) among us, Oxford Finance LLC, as collateral agent and a lender, the other lenders from time to time a party thereto and Silicon Valley Bank. The Loan Agreement provides for a \$20 million secured term loan facility split into three tranches as follows: (i) \$10 million in term loans (the “**Term Loan A**”), (ii) \$5 million in term loans (the “**Term Loan B**”) and (iii) \$5 million in term loans (the “**Term Loan C**”). The Term Loan A was drawn on August 7, 2015. The Term Loan B and the Term Loan C are available to be drawn when we meet certain revenue targets, and Term Loan C additionally requires an equity investment of \$15 million or greater. We have not yet met the requirements to draw down Term Loan B or Term Loan C. Proceeds of the term loans made under the Loan Agreement may be used by us for working capital and to fund general business requirements.

The term loans bear interest at a fixed rate, determined on the funding date, equal to the greater of (i) 7.80% and (ii) the rate published by The Wall Street Journal as the “Prime Rate” in the United States plus 4.55%. Interest is due and payable monthly in arrears. A default interest rate shall apply during any event of default under the Loan Agreement at a rate per annum equal to 5.00% above the applicable interest rate.

The term loans are payable in equal monthly installments amortizing over either 33 months or 27 months depending on when we meet certain revenue targets. Any remaining outstanding amounts of principal and/or interest are payable on September 1, 2019, the maturity date, together with a final payment equal to 2.25% multiplied by the original principal amount of the term loans (the “**Final Payment**”).

We may prepay the term loans in whole, not in part, at any time, provided that such payment is accompanied by an amount equal to the sum of (i) the principal amount of the term loans prepaid multiplied by: (A) 2.00% for any prepayment made on or prior to the second anniversary of the funding date of such term loans and (B) 1.00% for any prepayment made after the second anniversary of the funding date of such term loans and (ii) the Final Payment. We are also obligated to pay customary fees for a loan facility of this size and type.

The term loans are subject to financial covenants and are collateralized by substantially all of our assets (other than our intellectual property) and limits our ability with respect to additional indebtedness, investments or dividends, among other things, subject to customary exceptions. The Loan Agreement includes customary events of default and a subjective acceleration clause. Failure to comply with the loan covenants may result in the acceleration of payment terms on all outstanding principal and interest amounts plus a prepayment fee.

The following table summarizes our cash flows for the periods presented:

| | Nine Months Ended September 30, | |
|---|--|----------------|
| | 2016 | 2015 |
| Cash used in operating activities | \$ (8,332,701) | \$ (9,626,539) |
| Cash used in investing activities | (152,088) | (156,466) |
| Cash provided by (used in) financing activities | 11,915,960 | (60,037) |

Operating Activities

We have historically experienced negative cash outflows as we developed our miraDry and miraWave technology, and continued to expand our business. Our net cash used in operating activities primarily results from our net loss adjusted for non-cash expenses and changes in working capital components as we have grown our business, and is influenced by the timing of cash payments for inventory purchases and cash receipts from our customers. Our primary source of cash flow from operating activities is cash receipts from customers including sales of miraDry Systems. Our primary uses of cash from operating activities are employee-related expenditures and amounts due to vendors for purchased inventory components. Our cash flows from operating activities will continue to be affected principally by our working capital requirements, and the extent to which we build up our inventory balances and increase spending on personnel and other operating activities as our business grows.

During the nine months ended September 30, 2016, operating activities used \$8.3 million in cash, a decrease of \$1.3 million from cash used in the nine months ended September 30, 2015 of \$9.6 million. The decrease was primarily attributable to lower operating net losses due to an increase in revenue and gross margin from prior periods.

Investing Activities

Cash used in investing activities was \$0.2 million and \$0.2 million for the nine months ended September 30, 2016 and 2015, respectively. This was primarily for purchases of capital equipment used for operations and production.

Financing Activities

During the nine months ended September 30, 2016, \$11.9 million of cash provided by financing activities was primarily from the issuance bridge notes and proceeds from the private placement.

Under the terms of our senior debt agreement with SVB/Oxford, we have access to \$10.0 million of additional borrowing capacity, in two \$5.0 million tranches, once we have (i) achieved trailing six months consolidated revenue of at least \$15.0 million in any fiscal month and (ii) received net cash proceeds after the effective date of the Loan Agreement from the sale and issuance of equity securities of at least \$15.0 million from investors on terms and conditions reasonably acceptable to the collateral agent.

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2016 and 2015 and years ended December 31, 2015 and 2014, we did not have any off-balance sheet arrangements as defined by applicable SEC regulations.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the assumptions and estimates have the greatest potential impact on our financial statements. Therefore, we consider these to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see the notes to our financial statements.

Inventories

Inventories are stated at lower of cost or market value and consist of raw materials, work in process, and finished goods. Cost is determined using standard costs, which approximates actual cost on a first-in, first-out basis. Market value is determined as the lower of replacement cost or net realizable value. The Company writes down its inventory for estimated excess or obsolete inventory equal to the difference between the cost and the estimated market value based upon assumptions about future demands and market conditions.

Revenue Recognition

The Company's revenue is derived from the sale of the miraDry system, related consumables and accessories, and separately priced extended warranties. The Company recognizes revenue in accordance with FASB Accounting Standards Codification 605, *Revenue Recognition*, or ASC 605. Under ASC 605, revenue is recognized when persuasive evidence of an arrangement exists, title and risk of loss has transferred to the customer, the sales price is fixed or determinable, and collectability is reasonably assured.

The Company has distributor agreements with several international distributors. Certain distributor agreements contain product repurchase provisions. The Company defers revenue for its potential exposure for product repurchases.

The Company provides marketing development programs as part of certain customer purchase agreements and qualification through marketing rewards programs. The programs generally provide for reimbursement of qualifying marketing expenditures that promote the Company's products and brand. In order to qualify for the reimbursement, the customer must (1) adhere to the established brand style guidelines and only feature miraDry Systems and the customer's practice and (2) submit the invoice for the marketing expenses. Through this review, the Company ensures that the fair value of the separately identifiable benefit received is equal to or greater than the amount being reimbursed. The Company's reimbursement of marketing expenditures under these programs is recorded in sales and marketing expenses in the accompanying Consolidated Statements of Operations and Comprehensive Loss.

Product Warranty

The Company warrants the miraDry System for a period of one to two years, depending on the territory. The Company accrues for warranty costs at the time of sale based on an estimate of total repair costs for all miraDry Systems under the warranty period. An extended warranty may be purchased for additional fees.

Allowance for Doubtful Accounts

The Company regularly reviews accounts receivable balances, including an analysis of customers' payment history and information regarding the customers' creditworthiness, and records an allowance for doubtful accounts based upon this evaluation. The Company writes off accounts against the allowance when all attempts at collection have been exhausted.

Freestanding Preferred Stock Warrants

Freestanding warrants and other similar instruments related to shares that are redeemable are accounted for in accordance with ASC 480, "*Distinguishing Liabilities from Equity*." The freestanding warrants are exercisable into the Company's convertible preferred stock and are classified as liabilities on the balance sheet. The warrants are subject to re-measurement at each balance sheet date and the change in fair value, if any, is recognized as other income (expense). The Company will continue to adjust the liability for changes in fair value until the earlier of (i) exercise of the warrants, (ii) conversion into warrants to purchase common stock (upon conversion of the preferred stock to common), or (iii) expiration of the warrants.

Income Taxes

The Company accounts for income taxes under the liability method, whereby deferred tax assets and liabilities are recorded for the difference between the financial statement and tax bases of assets and liabilities and for net operating loss and tax credit carryforwards using the enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company adheres to the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740-10, "*Accounting for Uncertainty in Income Taxes*." ASC 740-10 prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return.

It is the Company's policy to include penalties and interest expense related to income taxes as a component of other expense, net, as necessary.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with 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. ASC 718 requires companies to estimate the fair value of all share-based payment awards on the date of grant using an option pricing model. All option grants valued since inception are expensed on a straight-line basis over the requisite service period.

The Company accounts for equity instruments issued to non-employees in accordance with ASC 505-50, "*Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods or Services*." 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.

Preferred Stock

Preferred shares subject to mandatory redemption (if any) are classified as liability instruments and are measured at fair value. The Company classifies conditionally redeemable preferred shares, which includes preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control, as temporary equity. At all other times, the Company classifies its preferred shares in stockholders' equity.

JOBS Act Accounting Election

We are an "emerging growth company" within the meaning of the JOBS Act. Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the "**Securities Act**") for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private

companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies that are not emerging growth companies.

Recently Issued and Adopted Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies," to the condensed consolidated financial statements for a description of new accounting pronouncements.

Item 4. Controls and Procedures

Evaluation of disclosure Controls and Procedures

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated in the Exchange Act that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our senior management, currently consisting of R. Michael Klein, our President and CEO, and Brigid Makes, our CFO, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Report, we carried out an evaluation, under the supervision and with the participation of our senior management, of the effectiveness of the design and operation of our predecessor's disclosure controls and procedures existing as of September 30, 2016. Based on the evaluation of these disclosure controls, we concluded that our disclosure controls and procedures were not effective as of such date.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with our evaluation we conducted of the effectiveness of our internal control over financial reporting as of September 30, 2016, that occurred during the quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

On July 20, 2015, a lawsuit alleging product liability, breach of warranty and negligence was filed against the Company in the Orange County Superior Court. The plaintiff alleged, among other things, that the Company was liable to plaintiff for injuries suffered due to defects in a certain miraDry device. We believe that there is no merit to the claims against it and intends to vigorously defend the lawsuit, but the outcome of any potential litigation matter is uncertain. Management does not believe that resolution of this matter will have a material negative effect on our operating results.

On September 2, 2016, we have received a demand from an attorney in Japan who represents a terminated employee claiming wrongful termination. We have retained a legal counsel in Japan who will advise on this matter and, if necessary, defend our interests in a formal legal proceeding. While we believe that the claim lacks legal basis and that we would prevail on the merits, the outcome is somewhat uncertain until the matter is finally resolved or adjudicated.

Other than the foregoing, we are currently not aware of any other pending legal proceedings to which we are a party or of which any of our property is the subject, nor are we aware of any such proceedings that are contemplated by any governmental authority. From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business.

Item 1A. Risk Factors.

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In connection with an alternative public offering we consummated on June 7, 2016, as previously reported in our Current Report on Form 8-K filed with the SEC on June 13, 2016, as amended on June 14, 2016, in a series of private placement offerings, or the Private Placement, on June 7, 2016, June 30, 2016, July 21, 2016 and August 8, 2016, we issued and sold 1,810,708 shares, 51,759 shares, 36,000 shares, and 80,100 shares, respectively, of our common stock, \$0.001 par value per share, or the Common Stock, at a purchase price of \$5.00 per share, or the Offering Price, to accredited investors. In total, we issued and sold an aggregate of 1,978,567 shares of the Common Stock in the four offerings. The aggregate gross proceeds from the offerings were \$9,892,835.00 (before deducting placement agent fees and expenses of the offerings estimated at approximately \$1,043,040.00). The Private Placement offerings were exempt from registration under Section 4(a)(2) of the Securities Act, in reliance upon the exemption provided by Regulation D promulgated by the SEC thereunder. The Common Stock in the private placements was sold to “accredited investors” as defined in Regulation D, and was conducted on a “reasonable best efforts” basis.

In connection with the Private Placement, we paid Katalyst Securities LLC and The Benchmark Company, LLC, each a U.S. registered broker-dealer, or the Placement Agents, a cash commission of 8% of the gross proceeds raised from new investors in the private placements. In addition, the Placement Agents received warrants to purchase a number of shares of the Common Stock equal to 8% of the number of shares of the Common Stock sold in the private placements, with a term of five (5) years and an exercise price of \$5.00 per share, or the Placement Agent Warrants. No cash commission was paid and no Placement Agent Warrants were issued in connection with the sale of 1,759,767 shares sold in the private placements to certain of the existing Company investors prior to the private placements. As a result of the foregoing, the Placement Agents and their sub-agents were paid an aggregate commission of \$87,520 and were issued Placement Agent Warrants to purchase an aggregate of 17,504 shares of the Common Stock.

Additionally, in August 2016, we issued an aggregate of 63,636 shares of the Common Stock to certain consultants in consideration of such consultants' services provided to the company. This issuance was exempt from registration under Section 4(a)(2) of the Securities Act, in reliance upon the exemption provided by Regulation D promulgated by the SEC thereunder. The Common Stock in the private placements was sold to “accredited investors” as defined in Regulation D.

During the three months ended September 30, 2016, we granted stock options and stock awards to employees, directors and consultants under our 2006 Stock Plan, or the 2006 Plan, covering an aggregate of 547,956 shares of common stock, at a weighted average exercise price of \$5.58 per share. During the three months ended September 30, 2016, we sold an aggregate of 18,483 shares of common stock to employees, directors and consultants for cash consideration in the aggregate amount of \$25,136.88 upon the exercise of stock options and stock awards.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this Quarterly Report on Form 10-Q, which Exhibit Index is incorporated herein by reference.

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Filed Herewith |
|----------------|--|---------------------------|----------------|------------------|----------------|
| | | Form | Exhibit Number | Date Filed | |
| 2.1 | Agreement and Plan of Merger and Reorganization, dated June 7, 2016, by and among Miramar Labs, Inc., Miramar Technologies, Inc. and Miramar Acquisition Corp. | S-1 | 2.1 | October 14, 2016 | |
| 3.1 | Amended and Restated Certificate of Incorporation of Miramar Labs, Inc. | S-1 | 3.1 | October 14, 2016 | |
| 3.2 | Amended and Restated Bylaws of Miramar Labs, Inc. | S-1 | 3.2 | October 14, 2016 | |
| 4.1 | Form of Registration Rights Agreement, by and among Miramar Labs, Inc. and certain investors named therein. | S-1 | 4.2 | October 14, 2016 | |
| 31.1 | Certification of Principal Executive Officer Required under Securities Exchange Act Rule 13a-14(a) and 15d-14(a). | | | | X |
| 31.2 | Certification of Principal Financial Officer under Securities Exchange Act Rule 13a-14(a) and 15d-14(a). | | | | X |
| 32.1 | Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. 1350 and Securities Exchange Act Rule 13a-14(b). | | | | X |
| 101.INS | XBRL Instance Document. | | | | X |
| 101.SCH | XBRL Taxonomy Extension Schema. | | | | X |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. | | | | X |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. | | | | X |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. | | | | X |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. | | | | X |

SIGNATURES

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

Dated: November 9, 2016

MIRAMAR LABS, INC.

By: /s/ R. Michael Kleine
Name: R. Michael Kleine
Title: Chief Executive Officer