Savara Inc
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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 June 30, 2018

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 001-32157

Savara Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	84-1318182 (I.R.S. Employer Identification No.)
6836 Bee Cave Road, Building III, Suite 200 Austin, TX (Address of principal executive offices)	78746 (Zip Code)

(512) 961-1891

(Registrant's telephone number, including area code)

N/A

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 (§232.405 of this chapter) 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 9, 2018, the registrant had 35,094,274 shares of common stock, $0.001 par value per share, outstanding.

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Savara Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$23,604	$22,121
Short-term investments	51,151	72,192
Prepaid expenses and other current assets	2,680	3,551
Total current assets	77,435	97,864
Property and equipment, net	720	925
In-process R&D	11,608	33,626
Goodwill	26,987	27,082
Other non-current assets	1,191	131
Total assets	$117,941	$159,628
Liabilities and stockholders’ equity (deficit)		
Current liabilities:		
Accounts payable	$2,523	$2,784
Accrued expenses	2,804	2,966
Debt facility	1,875	—
Current portion of capital lease obligation	318	265
Total current liabilities	7,520	6,015
Long-term liabilities:		
Debt facility, net of current portion	13,123	14,775
Contingent consideration	11,945	11,948
Deferred tax liability	2,554	7,181
Capital lease obligation, net of current portion	—	297
Other long-term liabilities	90	103
Total liabilities	35,232	40,319
Stockholders’ equity:		
Common stock, $0.001 par value, 200,000,000 and 500,000,000 shares authorized as of June 30, 2018 and December 31, 2017, respectively; 30,836,774 and 30,509,522 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	32	32
Additional paid-in capital	188,866	186,522
Accumulated other comprehensive income (loss)	456	958
Accumulated deficit	(106,645)	(68,203)
Total stockholders’ equity	82,709	119,309
Total liabilities and stockholders' equity	$117,941	$159,628

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

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Savara Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Operating expenses:				
Research and development	$9,268	$4,164	17,807	7,111
General and administrative	2,486	5,088	4,254	6,924
Impairment of acquired IPR&D	—	—	21,692	—
Depreciation	153	91	260	181
Total operating expenses	11,907	9,343	44,013	14,216
Loss from operations	(11,907)	(9,343)	(44,013)	(14,216)
Other income (expense):				
Interest expense, net	(113)	(516)	(217)	(761)
Foreign currency exchange gain (loss)	155	(122)	94	(154)
Loss on extinguishment of debt	—	(1,816)	—	(1,816)
Change in fair value of financial instruments	(6)	(177)	(62)	(237)
Total other income (expense)	36	(2,631)	(185)	(2,968)
Loss before income taxes	(11,871)	(11,974)	(44,198)	(17,184)
Income tax benefit	277	470	5,756	707
Net loss	$(11,594)	$(11,504)	$(38,442)	$(16,477)
Accretion of redeemable convertible preferred stock	—	(554)	—	(578)
Deemed dividend on beneficial conversion feature	—	(404)	—	(404)
Net loss attributable to common stockholders	$(11,594)	$(12,462)	$(38,442)	$(17,459)
Other comprehensive income:				
Gain (loss) on foreign currency translation	(856)	851	(515)	995
Unrealized gain (loss) on short-term investments	37	—	13	—
Total Comprehensive Loss	$(12,413)	$(10,653)	$(38,944)	$(15,482)
Net loss per share:				
Basic and diluted	$(0.38)	$(0.90)	$(1.26)	$(2.06)
Weighted average common shares outstanding				
Basic and diluted	30,658,494	13,807,861	30,601,425	8,465,053

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

Savara Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (Deficit)

Period Ended June 30, 2018

(In thousands, except share amounts)

(Unaudited)

	Stockholders' Equity (Deficit)					
	Common Stock		Additional		Accumulated Other	
	Number of Shares	Amount	Paid-In Capital	Accumulated Deficit	Comprehensive Income	Total
Balance on December 31, 2017	30,509,522	$ 32	186,522	$ (68,203)	$ 958	$ 119,309
Issuance of common stock upon At The Market sales, net	46,900	—	493	—	—	493
Issuance of common stock for settlement of RSUs	24,375	—	—	—	—	—
Net issuance of common stock upon cashless exercise of stock options	115,754	—	—	—	—	—
Issuance of common stock upon exercise of stock options	30,521	—	33	—	—	33
Issuance of common stock upon exercise of warrants	2,123	—	19	—	—	19
Common stock issued for purchase of assets	107,579	—	995	—	—	995
Stock-based compensation	—	—	804	—	—	804
Foreign exchange translation adjustment	—	—	—	—	(515)	(515)
Unrealized gain (loss) on short-term investments	—	—	—	—	13	13
Net loss incurred	—	—	—	(38,442)	—	(38,442)
Balance on June 30, 2018	30,836,774	$ 32	$ 188,866	$ (106,645)	$ 456	$ 82,709

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

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Savara Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(38,442)	$(16,477)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	260	181
Impairment of acquired IPR&D	21,692	—
Changes in fair value of financial instruments	62	237
Change in fair value of contingent consideration	(3)	1,977
Noncash interest	54	400
Loss on extinguishment of debt	—	1,816
Acquired IPR&D	995	—
Foreign currency gain/(loss)	(94)	154
Amortization of debt issuance costs	223	204
Accretion on discount to short-term investments and convertible promissory notes	(278)	—
Stock-based compensation	804	236
Provision (benefit) for deferred taxes	(4,555)	—
Changes in operating assets and liabilities:		
Grant and award receivable	—	400
Tax refund receivable	(1,237)	(666)
Prepaid expenses and other current assets	956	(817)
Deferred rent	(13)	(7)
Accounts payable and accrued expenses	(444)	1,847
Net cash used in operating activities	$(20,020)	$(10,515)
Cash flows from investing activities:		
Cash acquired through Merger	$—	$3,442
Purchase of property and equipment	(65)	(60)
Sales of available-for-sale securities	6,513	—
Maturities of available-for-sale securities	39,500	—
Purchase of available-for-sale securities, net	(24,724)	—
Net cash provided by / (used in) investing activities	$21,224	$3,382
Cash flows from financing activity:		
Proceeds from debt facility	$—	$14,894
Proceeds from convertible promissory notes	—	3,569
Issuance of common stock upon exercise of warrants	19	385
Issuance of common stock upon public offering	—	39,522
Issuance of common stock upon at the market offerings, net	493	100
Repayment of long-term debt	—	(3,567)
Proceeds from exercise of stock options	33	—
Capital lease obligation principal payments	(258)	(5)

Net cash provided by financing activities	$287	$54,898
Effect of exchange rate changes on cash and cash equivalents	(8)	(5)
Increase / (Decrease) in cash and cash equivalents	$1,483	$47,760
Cash and cash equivalents beginning of period	22,121	13,373
Cash and cash equivalents end of period	$23,604	$61,133
Non-cash transactions:		
Extinguishment and derecognition of put options	$—	$2,202
Conversion of convertible notes into common stock	$—	$8,249
Shares issued in connection of business combination and assumed equity awards	$—	$35,846
Accretion of redeemable convertible preferred stock	$—	$578
Beneficial conversion feature	$—	$404
Common stock issued for IPR&D, net	$995	$—
Supplemental disclosure of cash flow information:		
Cash paid for interest	$685	$102

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

Savara Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Savara Inc. (“Savara,” the “Company,” or as used in the context of “we” or “us”) is an orphan lung disease company. The Company’s pipeline comprises Molgradex, an inhaled granulocyte-macrophage colony-stimulating factor, or GM-CSF, in Phase 3 development for autoimmune pulmonary alveolar proteinosis (“aPAP”), in Phase 2a development for nontuberculous mycobacterial (“NTM”) lung infection, and in preparation of Phase 2a development in cystic fibrosis (“CF”) affected individuals with chronic NTM lung infection, and AeroVanc, a Phase 3 stage inhaled vancomycin for treatment of persistent methicillin-resistant Staphylococcus aureus (“MRSA”) lung infection in individuals living with CF. The Company and its wholly owned subsidiaries operate in one segment with its principal offices in Austin, Texas.

Since inception, Savara has devoted substantially all of its efforts and resources to identifying and developing its product candidates, recruiting personnel, and raising capital. Savara has incurred operating losses and negative cash flow from operations and has no product revenue from inception to date. The Company has not yet commenced commercial operations.

Basis of Presentation

The interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“U.S. GAAP”) as defined by the Financial Accounting Standards Board (“FASB”). These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017.

Unaudited Interim Financial Information

The interim condensed consolidated financial statements included in this document are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and reflect, in the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair statement of the Company’s financial position as of June 30, 2018, and its results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. The results of operations for interim periods shown in this report are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or for any other future annual or interim period. The December 31, 2017 consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. These condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017.

2. Summary of Significant Accounting Policies

Liquidity

As of June 30, 2018, the Company had an accumulated deficit of approximately $106.6 million. The Company also had negative cash flow from operations of approximately $20.0 million during the six months ended June 30, 2018. The cost to further develop and obtain regulatory approval for any drug is substantial and, as noted below, the

Company may have to take certain steps to maintain a positive cash position. Accordingly, the Company will need additional capital to further fund the development of, and seek regulatory approvals for, its product candidates and begin to commercialize any approved products.

Currently, the Company is primarily focused on the development of respiratory drugs and believes such activities will result in the Company's continued incurrence of significant research and development and other expenses related to those programs. If the clinical trials for any of the Company's product candidates fail or produce unsuccessful results and those product candidates do not gain regulatory approval, or if any of the Company's product candidates, if approved, fail to achieve market acceptance, the Company may never become profitable. Even if the Company achieves profitability in the future, it may not be able to sustain profitability in subsequent periods. The Company intends to cover its future operating expenses through cash and cash equivalents on hand and through a combination of equity offerings, debt financings, government or other third-party funding, and other collaborations and strategic alliances. The Company cannot be sure that additional financing will be available when needed or that, if available, financing will be obtained on terms favorable to the Company or its stockholders.

While the Company had cash and cash equivalents of $23.6 million and short-term investments of $51.2 million as of June 30, 2018, we intend to continue to raise additional capital as needed through the issuance of additional equity and potentially through borrowings, and strategic alliances with partner companies. However, if such financings are not available timely and at adequate levels, the Company will need to reevaluate its operating plans. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Principles of Consolidation

The interim condensed consolidated financial statements of the Company are stated in U.S. dollars and are prepared using U.S. GAAP. These financial statements include the accounts of the Company and its wholly owned subsidiaries. The financial statements of the Company's wholly owned subsidiaries are recorded in their functional currency and translated into the reporting currency. The cumulative effect of changes in exchange rates between the foreign entity's functional currency and the reporting currency is reported in Accumulated Other Comprehensive Income. All intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management's estimates include those related to the accrual of research and development costs, certain financial instruments recorded at fair value, stock-based compensation, and the valuation allowance for deferred tax assets. The Company bases its estimates on historical experience and on various other market-specific and relevant assumptions that it believes to be reasonable under the circumstances. Accordingly, actual results could be materially different from those estimates.

Risks and Uncertainties

The product candidates being developed by the Company require approvals from the U.S. Food and Drug Administration ("FDA") or foreign regulatory agencies prior to commercial sales. There can be no assurance that the Company's product candidates will receive the necessary approvals. If the Company is denied regulatory approval of its product candidates, or if approval is delayed, it may have a material adverse impact on the Company's business, results of operations and its financial position.

The Company is subject to a number of risks similar to other life science companies, including, but not limited to, risks related to the successful discovery and development of drug candidates, raising additional capital, development of competing drugs and therapies, protection of proprietary technology and market acceptance of the Company's products. As a result of these and other factors and the related uncertainties, there can be no assurance of the Company's future success.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash, institutional bank money market accounts, and commercial paper with original maturities of three months or less when acquired and are stated at cost, which approximates fair value.

Short-term Investments

The Company has classified its investments in debt securities with readily determinable fair value as available-for-sale securities. These securities are carried at estimated fair value with the aggregate unrealized gains and losses related to

these investments reflected as a part of “Accumulated other comprehensive income (loss)” within stockholders' equity.

The fair value of the investments is based on the specific quoted market price of the securities or comparable securities at the balance sheet dates. Investments in debt securities are considered to be impaired when a decline in fair value is judged to be other than temporary because the Company either intends to sell or it is more-likely-than not that it will have to sell the impaired security before recovery. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and foreign exchange derivatives not designated as hedging. The Company places its cash and cash equivalents with a limited number of high quality financial institutions and at times may exceed the amount of insurance provided on such deposits.

Accrued Research and Development Costs

The Company records the costs associated with research, nonclinical studies, clinical trials, and manufacturing development as incurred. These costs are a significant component of the Company's research and development expenses, with a substantial portion of the Company's on-going research and development activities conducted by third-party service providers, including contract research and manufacturing organizations.

The Company accrues for expenses resulting from obligations under agreements with contract research organizations ("CROs"), contract manufacturing organizations ("CMOs"), and other outside service providers for which payment flows do not match the periods over which materials or services are provided to the Company. Accruals are recorded based on estimates of services received and efforts expended pursuant to agreements established with CROs, CMOs, and other outside service providers. These estimates are typically based on contracted amounts applied to the proportion of work performed and determined through analysis with internal personnel and external service providers as to the progress or stage of completion of the services. The Company makes significant judgments and estimates in determining the accrual balance in each reporting period. In the event advance payments are made to a CRO, CMO, or outside service provider, the payments will be recorded as a prepaid asset which will be amortized or expensed as the contracted services are performed. As actual costs become known, the Company adjusts its prepaids and accruals. Inputs, such as the services performed, the number of patients enrolled, or the study duration, may vary from the Company's estimates resulting in adjustments to research and development expense in future periods. Changes in these estimates that result in material changes to the Company's accruals could materially affect the Company's results of operations. To date, the Company has not experienced any material deviations between accrued and actual research and development expenses.

Business Combinations

Assets acquired and liabilities assumed as part of a business acquisition are recorded at their estimated fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires management to make estimates, which are based on all available information and, in some cases, assumptions with respect to the timing and amount of future revenue and expenses associated with an asset.

Goodwill, Acquired In-Process Research and Development (IPR&D) and Deferred Tax Liability

Goodwill and acquired IPR&D are not amortized but are tested annually for impairment or more frequently if impairment indicators exist. The Company adopted accounting guidance related to annual and interim goodwill and acquired in-process research and development ("IPR&D") impairment tests which allows the Company to first assess qualitative factors before performing a quantitative assessment of the fair value of a reporting unit. If it is determined on the basis of qualitative factors that the fair value of the reporting unit is more likely than not less than the carrying amount, a quantitative impairment test is required. During the six months ended June 30, 2018, the Company experienced a $0.1 million and $0.3 million decrease in the carrying value of goodwill and IPR&D, respectively, related to its acquisition of Savara ApS on July 15, 2016, which was due to foreign currency translation. In addition, during the six months ended June 30, 2018, the Company recorded $21.7 million of impairment charges and a corresponding decrease to the carrying value of IPR&D related to the Aironite drug candidate assumed in the Merger as further described in Note 6 due to the unfavorable results from a Phase 2 study that demonstrated a failure of Aironite to meet the endpoints of the study and limited effectiveness of the compound in patients. As a result of the

IPR&D impairment charges recorded in the first quarter of 2018, the Company reduced the associated deferred tax liability related to the acquired IPR&D from the Merger by $4.6 million and recorded a tax benefit.

Tax Refund Receivable

The Company has recorded a Danish tax credit earned by its subsidiary, Savara ApS, for the six months ended June 30, 2018. Under Danish tax law, Denmark remits a research and development tax credit equal to 22% of qualified research and development expenditures, not to exceed established thresholds. As of June 30, 2018, credits totaling $1.7 million had been generated but not yet received. Of this Danish tax credit of approximately $1.7 million, $0.8 million is related to research and development activities incurred during the year ended December 31, 2017 and recorded as a receivable in prepaid expenses and other current assets, as receipt is expected to occur in the fourth quarter of 2018. The remaining portion of the Danish tax credit of $0.9 million which was generated during the six months ended June 30, 2018 is recorded in other non-current assets and is expected to be received in the fourth quarter of 2019.

The Company also recognized a tax benefit for the six months ended June 30, 2018 as provided by the Australian Taxation Office for qualified research and development expenditures incurred on the NTM program incurred through our subsidiary, Savara Australia Pty. Limited. Under Australian tax law, Australia remits a research and development tax credit equal to 43.5% of qualified research and development expenditures, not to exceed established thresholds. As of June 30, 2018, credits totaling $0.3 million had been generated but not yet received. This Australian tax credit of approximately $0.3 million includes approximately $0.1 million in tax credits generated during the year ended December 31, 2017 and is recorded as a receivable in prepaid expenses and other current assets as receipt is expected to occur in the fourth quarter of 2018. The remaining portion of the Australian tax credit of $0.2 million which was generated during the six months ended June 30, 2018 and is recorded in other non-current assets and is expected to be received in the fourth quarter of 2019.

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision-making group, in making decisions on how to allocate resources and assess performance. Our chief operating decision maker is the chief executive officer. We have one operating segment, specialty pharmaceuticals within the respiratory system.

Fair Value of Financial Instruments

The accounting standard for fair value measurements provides a framework for measuring fair value and requires disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company’s principal or, in absence of a principal, most advantageous market for the specific asset or liability.

The Company uses a three-tier fair value hierarchy to classify and disclose all assets and liabilities measured at fair value on a recurring basis, as well as assets and liabilities measured at fair value on a non-recurring basis, in periods subsequent to their initial measurement. The hierarchy requires the Company to use observable inputs when available, and to minimize the use of unobservable inputs, when determining fair value.

The three tiers are defined as follows:

- Level 1 – Observable inputs that reflect quoted market prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 – Observable inputs other than quoted prices in active markets that are observable either directly or indirectly in the marketplace for identical or similar assets and liabilities; and
- Level 3 – Unobservable inputs that are supported by little or no market data, which require the Company to develop its own assumptions.

Financial instruments carried at fair value include cash and cash equivalents and contingent consideration related to the acquisition of Serendex (Note 8) for which any change is reflected in general and administrative expense, foreign exchange derivatives, certain warrants previously classified as liabilities, and embedded put options separated from the convertible promissory notes which were converted to equity or derecognized in connection with the Merger.

Financial instruments not carried at fair value include accounts payable and accrued liabilities. The carrying amounts of these financial instruments approximate fair value due to the highly liquid nature of these short-term instruments.

Net Loss per Share

Basic net loss attributable to common stockholders per share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock, restricted stock and restricted stock units outstanding during the period without consideration of common stock equivalents. Since the Company was

in a loss position for all periods presented, diluted net loss per share is the same as basic net loss per share for all periods presented as the inclusion of all potential dilutive securities would have been antidilutive.

Stock-Based Compensation

The Company recognizes the cost of stock-based awards granted to employees based on the estimated grant-date fair value of the awards. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service period. The Company recognizes the compensation costs for awards that vest over several years on a straight-line basis over the vesting period (see Note 12). Forfeitures are recognized when they occur, which may result in the reversal of compensation costs in subsequent periods as the forfeitures arise. The Company recognizes the cost of stock-based awards granted to nonemployees at their then-current fair values as services are performed, and such awards are remeasured through the counterparty performance date.

Manufacturing Commitments and Contingencies

The Company is subject to various manufacturing royalties and payments related to its product candidate, Molgradex. Under an agreement, as amended, with the Active Pharmaceutical Ingredients (“API”) manufacturer, no signing fee or milestones are included in the royalty payments, and there is no minimum royalty. Upon the successful development, registration and attainment of approval by the proper health authorities, such as the FDA, in any territory except Latin America, Central America and Mexico, the Company must pay a royalty of three percent (3%) on annual net sales to the manufacturer of its API. Additionally, Savara must make certain payments to the API manufacturer upon the achievement of the milestones outlined in the following table.

The Company is also subject to certain contingent milestone payments, disclosed in the following table, payable to the Company’s manufacturer of its nebulizer used to administer Molgradex. In addition to these milestones, the Company will owe a royalty to the manufacturer of its nebulizer based on net sales. The royalty rate ranges from three and a half percent (3.5%) to five percent (5%) depending on the device technology used by the Company to administer the product.

Manufacturing Contingent Milestone Payments (in thousands):

	June 30, 2018
Molgradex API manufacturer:	
Delivery of working and master cell banks	$600
Achievement of certain milestones related to regulatory approval of Molgradex	2,000
Molgradex nebulizer manufacturer:	
Achievement of various development activities and regulatory approval of nebulizer utilized to administer Molgradex	8,132
Total manufacturing commitments	$10,732

As of June 30, 2018 and December 31, 2017, none of the above milestones had been met.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities will be recognized in the period that includes the enactment date. A valuation allowance is established against the deferred tax assets to reduce their carrying value to an amount that is more likely than not to be realized.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” and has subsequently issued several supplemental and/or clarifying ASUs, which comprise the new comprehensive revenue recognition standard that will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. The standard’s core principle is that a reporting entity will recognize revenue when it transfers control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We have performed an assessment of our contracts with third parties and determined that there would not be a material impact on our financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, “Leases” (“ASU 2016-02”). The update aims at making leasing activities more transparent and comparable and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and a corresponding lease liability, including leases currently accounted for as operating leases. The update also requires improved disclosures to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements.

3. Prepaid expenses and other current assets

Prepaid expenses consisted of (in thousands):

	June 30, 2018	December 31, 2017
R&D tax credit receivable	$899	$ 834
Prepaid clinical trial costs	966	2,129
VAT receivable	236	196
Prepaid insurance	430	158
Forward currency exchange derivative	—	40
Deposits and other	149	194
Total prepaid expenses and other current assets	$2,680	$ 3,551

4. Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of (in thousands):

	June 30, 2018	December 31, 2017
Accrued contracted research and development costs	$1,646	$ 1,308
Accrued general and administrative costs	623	323
Accrued compensation	515	1,328
Forward currency contract obligation	20	—
Other	—	7
Total accrued expenses and other liabilities	$2,804	$ 2,966

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5. Short-term Investments

Short-term Investments in Available for Sale Securities

The Company's investment policy seeks to preserve capital and maintain sufficient liquidity to meet operational and other needs of the business. The following table summarizes, by major security type, the Company's investments as follows (in thousands):

As of June 30, 2018:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments				
U.S. government securities	$ 11,964	$ —	$ (16)	$ 11,948
Asset backed securities	4,275	—	(9)	4,266
Corporate securities	12,939	1	(9)	12,931
Commercial paper	22,006	—	—	22,006
Total short-term investments	$ 51,184	$ 1	$ (34)	$ 51,151

As of December 31, 2017:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Short-term investments				
U.S. government securities	$ 11,894	$ —	$ (9)	$ 11,885
Asset backed securities	8,389	—	(6)	8,383
Corporate securities	22,113	—	(31)	22,082
Commercial paper	29,842	—	—	29,842
Total short-term investments	$ 72,238	$ —	$ (46)	$ 72,192

The Company has classified its investments as available-for-sale securities. These securities are carried at estimated fair value with the aggregate unrealized gains and losses related to these investments reflected as a part of "Accumulated other comprehensive income (loss)" in the Consolidated Balance Sheets. Classification as short-term or long-term is based upon whether the maturity of the debt securities is less than or greater than twelve months.

There were no significant realized gains or losses related to investments for the six months ended June 30, 2018 and June 30, 2017.

6. Acquisitions

Mast

On April 27, 2017, Savara completed its business combination with Mast Therapeutics, Inc. ("Mast"), a publicly held company, in accordance with the terms of the Agreement and Plan of Merger and dated January 6, 2017 (the

"Merger"). The Merger was accounted for as a reverse merger under the acquisition method of accounting whereby Savara was considered to have acquired Mast for financial reporting purposes because, immediately upon completion of the Merger, Savara stockholders held a majority of the voting interest of the combined company.

Pursuant to business combination accounting, the Company applied the acquisition method, which requires the assets acquired and liabilities assumed be recorded at fair value with limited exceptions. The Company used the Multi-Period Excess Earnings Model ("MPEEM"), a form of the income approach to value the in-process research and development intangible asset. Under the valuation method, the present value of future cash flows expected to be generated from the IPR&D of the acquired product candidate, Aironite, was determined using a reasonable discount rate, and identified projected cash flows from Aironite were risk adjusted to take into consideration the probabilities of moving through the various clinical stages. The excess of the purchase price over the assets acquired and liabilities assumed represents goodwill. The goodwill is primarily attributable to the synergies expected to arise after the acquisition and is not expected to be deductible for tax purposes. All transaction costs associated with the Merger were incurred during the year ended December 31, 2017. The total purchase price for Mast was $35.8 million based on the fair value of the outstanding Mast equity on the date of the Merger which was allocated as follows:

Purchase Consideration	(in thousands)
Fair value of Mast shares outstanding	$ 33,117
Fair value of Mast equity	2,729
Fair value of total consideration	$ 35,846
Assets acquired and liabilities assumed	
Cash and cash equivalents	$ 3,442
Tangible assets	283
In-process research and development intangible assets	21,692
Liabilities	(2,396)
Debt	(3,407)
Deferred tax liability	(7,375)
Total assets acquired and liabilities assumed	12,239
Goodwill	23,607
Total	$ 35,846

As discussed in Note 2, during the first quarter of 2018, the Company recorded a $21.7 million impairment charge and corresponding decrease to the carrying value of IPR&D recorded with respect to the Merger to write the IPR&D asset off in full due to the failure of Aironite to meet its primary and secondary endpoints in the Phase 2 study. Following the negative outcome of the study, Savara does not plan to support any new development of Aironite. The decrease in the carrying value of IPR&D has been recognized as an expense to "Impairment of acquired IPR&D" included in the condensed consolidated statement of operations for the six months ended June 30, 2018. As a result of the impairment charge recorded in the first quarter of 2018, the Company reduced the related deferred tax liability by $4.6 million and recorded a tax benefit.

Mast Pro Forma (Unaudited)

The following summary pro forma financial information reflects the consolidated operations of the Company for the six months ended June 30, 2017 as if the Merger with Mast had occurred on January 1, 2016. This summary pro forma information is not necessarily representative of what the Company's results of operations would have been had the Merger in fact occurred on January 1, 2016 and is not intended to project the Company's results of operations for any future period. Included in the Savara condensed consolidated statement of operations for the six months ended June

30, 2017 is $0 of revenue and $0.6 million of net loss before income tax generated by Mast since April 27, 2017, the acquisition date.

	Three Months Ended	Six Months Ended
	June 30, 2017	June 30, 2017
Net revenues	$—	$94
Net loss	$(10,532)	$(18,100)

Pro forma combined net loss includes adjustments to remove transaction costs of $5.1 million and $8.4 million for the three and six months ended June 30, 2017, respectively, as these costs do not have a continuing impact on operations, and a reduction in interest expense of $0.1 million and $0.2 million for the three and six months ended June 30, 2017, respectively, due to the new debt facility (Note 7) entered into as part of the Merger and contemporaneous repayment of the pre-Merger debt of Mast.

Cardeas

In June 2018, the Company entered into an asset purchase agreement (the "Asset Purchase Agreement") with Cardeas Pharma Corporation ("Cardeas"), a biopharmaceutical company specializing in the development of inhaled antibiotics to treat hospital-acquired and/or multi-drug resistant bacterial respiratory infections from highly antibiotic-resistant organisms. Pursuant to the Asset Purchase Agreement, Savara acquired substantially all of the assets, including intellectual property, of Cardeas for a purchase price comprised of (i) an upfront payment of 107,579 shares of the Company's common stock equal to approximately $1.0 million as of the date of consummation and (ii) certain contingent payments due upon the achievement of distinct development milestones. The Company has accounted for the transaction as an asset purchase. As of the measurement date of the acquisition and at June 30, 2018, the Company has deemed that the contingent payments are not probable and as such has not recorded an associated liability but will continue to assess at each period accordingly.

7. Debt Facility

On April 28, 2017, the Company entered into a loan and security agreement with Silicon Valley Bank (the "Loan Agreement"). During the year ended December 31, 2017, upon satisfaction of the conditions of the Loan Agreement, the Company executed two tranches totaling $15.0 million, the maximum credit available pursuant to the debt facility. The capital was utilized for the repayment of $3.7 million of principal debt and fees of Mast assumed in the Merger. The residual capital is being utilized to fund ongoing development programs of the Company and for general corporate purposes.

The Loan Agreement contains customary affirmative and negative covenants, including among others, covenants limiting our ability and that of our subsidiaries to dispose of assets, permit a change in control, merge or consolidate, make acquisitions, incur indebtedness, grant liens, make investments, make certain restricted payments and enter into transactions with affiliates, in each case subject to certain exceptions.

The Loan Agreement bears interest at the prime rate reported in The Wall Street Journal, plus a spread of 4.25%. Interest only payments are due through September 2018 followed by monthly payments of principal plus interest over the following 30 months. Since the second tranche was fully extended, the interest only period was extended for an additional 6 months, through March 2019 followed by monthly payments of principal plus interest over the following 24 months through the maturity date of March 1, 2021 under the Loan Agreement provisions. We were obligated to pay customary closing fees and are obligated to pay a final payment of 6.0% of the aggregate principal amount of term loans advanced under the facility. The end of term charge of $0.9 million will be due on the scheduled maturity date and is being recognized as an increase to the principal with a corresponding charge to interest expense over the term of the facility using the effective interest method.

In connection with the Loan Agreement, we paid $0.1 million in legal costs directly attributable to issuing the debt instrument. Such charges were accounted for as debt issuance costs and are being amortized to interest expense using the effective interest method through the scheduled maturity date.

Upon funding the first tranche of the Loan Agreement, the Company was obligated to issue warrants to purchase shares of the Company's common stock equal to 3.0% of the funded amount divided by the exercise price to be set based on the average price per share over the preceding 10 trading days prior to closing. The number of shares callable under the warrant agreement for the first tranche and exercise price were 24,725 shares of the Company's

common stock at an exercise price of $9.10 per share, with a ten year life, expiring April 28, 2027 (“April 2017 Warrants”).

Upon funding the second tranche of the Loan Agreement, the Company was obligated to issue warrants to purchase shares of the Company’s common stock equal to 3.0% of the funded amount divided by an exercise price to be set based on the average price per share over the preceding 10 trading days prior to funding or the price per share prior to the day of funding. As such, the Company issued additional warrants for 41,736 shares at an exercise price of $5.39 with a ten year life, expiring June 15, 2027 (“June 2017 Warrants”).

The April 2017 Warrants and June 2017 Warrants were valued using the Black-Scholes option pricing model with the following assumptions: volatility of 71.42% and 71.57%, respectively, expected term of ten years, risk-free interest rate of 2.33% and 2.16%, respectively, and a zero dividend yield. The collective warrant fair value of $0.4 million has been recorded as a debt discount and is being amortized through interest expense using the effective interest method through the scheduled maturity date.

Summary of Carrying Value

The following table summarizes the components of the debt facility carrying value, which approximates the fair value (in thousands):

	As of June 30, 2018	
	Short-term	Long-term
Principal payments to lender and end of term charge	$1,875	$ 13,417
Debt Issuance costs	—	(67)
Debt discount related to warrants	—	(227)
Carrying Value	$1,875	$ 13,123

8. Fair Value Measurements

The Company measures and reports certain financial instruments at fair value on a recurring basis and evaluates its financial instruments subject to fair value measurements on a recurring basis to determine the appropriate level in which to classify them in each reporting period.

The Company determined that certain investments in debt securities classified as available-for-sale securities were Level 1 financial instruments.

Additional investments in corporate debt securities and commercial paper are considered Level 2 financial instruments because the Company has access to quoted prices but does not have visibility to the volume and frequency of trading for all of these investments. For the Company’s investments, a market approach is used for recurring fair value measurements and the valuation techniques use inputs that are observable, or can be corroborated by observable data, in an active marketplace.

Foreign exchange derivatives not designated as hedging instruments are considered Level 2 financial instruments. The Company’s foreign exchange derivative instruments are typically short-term in nature.

The Company also determined that the contingent consideration, described further below, was a Level 3 financial instrument.

The fair value of these instruments as of June 30, 2018 and December 31, 2017 was as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2018:			
Cash equivalents:			
U.S. Treasury money market funds	$17,731	$ —	$ —
Commercial paper	$—	$ 2,014	$ —
Short-term investments:			
U.S. government securities	$11,948	$ —	$ —
Asset backed securities		$ 4,266	
Corporate securities	$—	$ 12,931	$ —
Commercial paper	$—	$ 22,006	$ —
Liabilities:			
Contingent consideration	$—	$ —	$ 11,945
Foreign exchange derivatives not designated as hedging instruments	$—	$ 20	$ —
As of December 31, 2017:			
Cash equivalents:			
U.S. Treasury money market funds	$4,540	$ —	$ —
Commercial paper	$—	$ 1,029	$ —
Repurchase agreements	$—	$ 2,500	$ —
Short-term investments:			
U.S. government securities	$11,885	$ —	$ —
Asset backed securities		$ 8,383	
Corporate securities	$—	$ 22,082	$ —
Commercial paper	$—	$ 29,842	$ —
Other assets:			
Foreign exchange derivatives not designated as hedging instruments	$—	$ 40	$ —
Liabilities:			
Contingent consideration	$—	$ —	$ 11,948

Pursuant to the acquisition of certain assets, liabilities, and subsidiaries of Serendex A/S through is wholly-owned Danish subsidiary, Savara ApS on July 15, 2016, Savara agreed to pay the seller, in addition to a stipulated amount of shares of Savara's common stock, (i) $5.0 million upon receipt of marketing approval of Molgradex by the European Medicines Agency, (ii) $15.0 million upon receipt of marketing approval of Molgradex by the FDA, and (iii) $1.5 million upon receipt of marketing approval of Molgradex by the Japanese Pharmaceuticals and Medical Devices Agency (the "Contingent Milestone Payments"). The Company estimates the likelihood of approval in each region, separately, based on the product candidate's current phase of development and utilizing published studies of clinical development success rates for comparable non-oncology orphan drugs. The present value of the potential cash outflows from the probability weighted Contingent Milestone Payments is then estimated by taking into consideration that the Contingent Milestone Payments are similar to a business expense of the Company and would be senior to any Company debt obligations. The resulting weighted average present value factor is then applied to discount the probability adjusted Contingent Milestone Payments for each region to derive the fair value of the Contingent Milestone Payments.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial instruments (in thousands) for the six months ended June 30, 2018 and year ended December 31, 2017:

	Warrant Liability	Put options on convertible promissory notes	Contingent Consideration
As of December 31, 2016	$ 303	$ 979	$ 9,708
Change in fair value	67	169	2,240
Put option at issuance of convertible promissory notes	—	828	—
Conversion of convertible promissory notes		(1,976)	
Reclassification of warrant liability to common equity upon Merger	(370)	—	—
Balance at December 31, 2017	$ —	$ —	$ 11,948
Change in fair value	—	—	(3)
Balance at June 30, 2018	$ —	$ —	$ 11,945

The Company records changes in fair value of the contingent consideration in general and administrative expense.

In June 2017, the Company determined that there would be a change to the Molgradex program due to the FDA's guidance on the clinical program requirements for a New Drug Application submission in the U.S. related to the Molgradex product, which was issued in May 2017. Based on the FDA's guidance, the Company modified certain criteria of its Molgradex development program which the Company believes will accelerate the development timeline in the U.S. The Company accordingly accounted for this change in its valuation of the contingent consideration as of June 30, 2017. Additionally, in the first quarter of 2018, Savara received approval from the FDA of its expansion of the Molgradex Phase 3 Study for aPAP into the U.S. to support its expedited U.S. development strategy for Molgradex. However, in order to achieve sufficient support for the study endpoints and outcome, the sample size of the study was increased resulting in the extension of the patient enrollment completion dates, and hence, the approval dates of Molgradex, by approximately two calendar quarters. The Company likewise accounted for this change in its valuation of the contingent consideration in the requisite calendar quarters.

The Company also accounted for the time value of money related to the Contingent Milestone Payments from December 31, 2017 to June 30, 2018 in its assessment. Accordingly, the related contingent consideration liability was remeasured to $11.9 million as of June 30, 2018 reflecting an insignificant change in fair value as of June 30, 2018.

The Company did not transfer any assets measured at fair value on a recurring basis to or from Level 1, Level 2 and Level 3 during the six months ended June 30, 2018 and year ended December 31, 2017.

9. Derivative Financial Instruments

In the normal course of business, the Company is exposed to the impact of foreign currency fluctuations. The Company seeks to limit these risks by following risk management policies and procedures, including the use of derivatives. The Company's derivative contracts, which are not designated as hedging instruments, principally address short-term foreign currency exchange. The estimated fair value of the derivative contracts was based upon the relative exchange rate as of the balance sheet date. Accordingly, any gains or losses resulting from variances between this exchange rate and the exchange rate at the contract inception date were recognized as other income or expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss. As of June 30, 2018, there were approximately $3.2 million of unsettled forward exchange contracts to purchase foreign currency and the net derivative financial instruments were recorded at their estimated fair value of twenty thousand dollars in accrued expenses.

10. Shareholders' Equity

Common Stock Sales Agreement/At The Market (ATM)

On April 28, 2017, the Company entered into a Common Stock Sales Agreement (the "Sales Agreement") with H.C. Wainwright & Co., LLC ("Wainwright"), as sales agent, which was amended by Amendment No. 1 to the Common Stock Agreement (the "Amendment") on June 29, 2018, pursuant to which the Company may offer and sell, from time to time, through Wainwright, shares of Savara's common stock, par value $0.001 per share (the "Shares"), having an aggregate offering price of not more than $60.0 million, in addition to the $2.3 million in shares sold prior to the Amendment. The Amendment was effective on July 13, 2018, at the time the Company's Registration Statement on Form S-3, dated June 29, 2018, (the "New Registration Statement") was declared effective by the Securities and Exchange Commission.

The Shares will be offered and sold pursuant to the New Registration Statement. Subject to the terms and conditions of the Sales Agreement, Wainwright will use its commercially reasonable efforts to sell the Shares from time to time, based upon the Company's instructions. The Company has provided Wainwright with customary indemnification rights, and Wainwright will be entitled to a commission at a fixed commission rate equal to 3.0% of the gross proceeds per Share sold. Sales of the Shares, if any, under the Sales Agreement may be made in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended. The Company has no obligation to sell any of the Shares and may at any time suspend sales under the Sales Agreement or terminate the Sales Agreement.

During the six months ended June 30, 2018, the Company sold 46,900 shares of common stock under the Sales Agreement, for net proceeds of approximately $0.5 million.

Common Stock

The Company's amended and restated certificate of incorporation, effective upon the completion of the Merger, and as further amended and restated in June 2018, authorizes the Company to issue 201 million shares of common and preferred stock, consisting of 200 million shares of common stock with $0.001 par value and one million shares of preferred stock with $0.001 par value. The following is a summary of the Company's common stock at June 30, 2018 and December 31, 2017.

	June 30, 2018	December 31, 2017
Common stock authorized	200,000,000	500,000,000
Common stock outstanding	30,836,774	30,509,522

The Company's shares of common stock reserved for issuance as of June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
Warrants from Mast acquired in Merger	750,840	1,152,231
Warrants Converted Pursuant to Merger	72,869	74,992
April 2017 SVB Warrants	24,725	24,725
June 2017 SVB Warrants	41,736	41,736
Prefunded warrants	775,000	775,000
Stock options outstanding	1,691,286	1,916,832
Issued and unvested RSU's	182,500	86,875
Total shares reserved	3,538,956	4,072,391

Warrants

The following table summarizes the outstanding warrants for the Company's common stock as of June 30, 2018:

Shares Underlying Outstanding Warrants	Exercise Price	Expiration Date
314,446	$ 52.50	November 2019
32,467	$ 7.00	August 2020
403,927	$ 29.40	February 2021
72,869	$ 8.98	June 2021
24,725	$ 9.10	April 2027
41,736	$ 5.39	June 2027
775,000	$ 0.01	October 2024
1,665,170		

11. Commitments

Operating Leases

We are obligated under operating leases for office space. We lease an office space in Copenhagen, Denmark with a lease effective on June 1, 2014 and expiring on November 30, 2019. Our monthly rent is approximately five thousand dollars. On March 23, 2017, we sublet office space located in San Diego, California with rentable office space of approximately 13,707 square feet, which previously served as Mast's corporate headquarters, to a third party. As a result of the Merger, the Company no longer had an ongoing need for these facilities. The term of the sub-sublease commenced on July 1, 2017 and expires on May 31, 2020, coterminous with a sublease agreement dated June 19, 2014 with the sublessor. Monthly base rent under the sub-sublease is approximately forty-four thousand dollars, subject to increases of 3.0% annually on the anniversary of the commencement date of the sub-sublease term. However, monthly base rent for calendar month two of the sub-sublease term was abated.

On November 29, 2017, we entered into a sublease agreement for a new office space in Austin, Texas for our corporate headquarters. The term of the sublease space commenced on January 1, 2018 and will continue until July 31, 2021, and we agreed to make monthly rental payments of thirteen thousand dollars, subject to increases of approximately 2% annually on the anniversary of the commencement date of the sublease term. However, monthly base rent for calendar month one of the sublease term was abated.

We previously leased office space for our corporate headquarters, prior to our relocation on January 1, 2018 in Austin, Texas pursuant to an operating lease dated November 19, 2012, as amended May 22, 2015, under which we are obligated to remit monthly rental payments of approximately five thousand dollars for the period January 1, 2018 through January 31, 2019 and five thousand six hundred dollars thereafter through November 30, 2019. On November 29, 2017, we entered into a sublease agreement pursuant to which the sublessee will occupy the office space and remit these rental payments to Savara, as obligor, effective January 1, 2018 except for the first month's rent on January 2018.

Risk Management

The Company maintains various forms of insurance that the Company's management believes are adequate to reduce the exposure to these risks to an acceptable level.

Employment Agreements

Certain executive officers are entitled to payments if they are terminated without cause or as a result of a change in control. Upon termination without cause, and not as a result of death or disability, each of such officers is entitled to receive a payment of base salary for three to twelve months following termination of employment and such officer will be entitled to continue to receive coverage under medical and dental benefit plans for three to twelve months or until such officer is covered under a separate plan from another employer. Upon a termination other than for cause or for good reason within twelve months following a change in control, each of such officers will be entitled to the same benefits as upon termination without cause and will also be entitled to certain acceleration of such officer's outstanding unvested options at the time of such termination.

12. Stock-Based Compensation

A. Equity Incentive Plan

2008 Stock Option Plan

The Company adopted the Savara Inc. Stock Option Plan (the "2008 Plan"), pursuant to which the Company had reserved shares for issuance to employees, directors, and consultants. The 2008 Plan includes 1) the option grant program providing for both incentive and non-qualified stock options, as defined by the Internal Revenue Code, and 2) the stock issuance program providing for the issuance of awards that are valued based upon common stock, including restricted stock, dividend equivalents, stock appreciation rights, phantom stock, and performance units. The 2008 Plan also allows eligible persons to purchase shares of common stock at an amount determined by the Plan Administrator. Upon a participant's termination, the Company retains the right to repurchase unvested shares issued in conjunction with the stock issuance program at the fair market value per share as of the date of termination.

Prior to the closing of the Merger, the Company had issued incentive and non-qualified options and restricted stock to employees and non-employees under the 2008 Plan. The terms of the stock options, including the exercise price per share and vesting provisions, were determined by the board of directors. Stock options were granted at exercise prices not less than the estimated fair market value of the Company's common stock at the date of grant based upon objective and subjective factors including: third-party valuations, preferred stock transactions with third parties, current operating and financial performance, management estimates and future expectations. Stock option grants typically vest quarterly over three to four years and expire ten years from the grant date, and restricted stock grants vest on a quarterly basis over four years and expire ten years from the grant date.

Following the Merger, the Company no longer issues stock-based awards under the 2008 Plan.

2015 Omnibus Incentive Option Plan

The Company operates the 2015 Omnibus Incentive Plan (the "2015 Plan"), which was amended in June 2018. The 2015 Plan provides for the grant of incentive and non-statutory stock options, as well as share appreciation rights, restricted shares, restricted stock units ("RSUs"), performance units, shares and other share-based awards. Share-based awards are subject to terms and conditions established by our board of directors or the compensation committee of our board of directors. As of June 30, 2018, the number of shares of our common stock available for grant under the 2015 Plan was 3,005,868 shares.

B. Stock Option Valuation

Under the 2008 Plan and 2015 Plan, the Company values stock options using the Black-Scholes option-pricing model, which requires the input of subjective assumptions, including the risk-free interest rate, expected life, expected stock price volatility and dividend yield. The risk-free interest rate assumption is based upon observed interest rates for constant maturity U.S. Treasury securities consistent with the expected term of the Company's employee stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method. The Company uses the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options. The Company assumes no dividend yield because dividends are not expected to be paid in the near future, which is consistent with the Company's history of not paying dividends. The valuation of stock options is also impacted by the valuation of common stock. Refer to the section above for further information on the valuation methodology utilized by the Company to determine the value of its common stock.

C. Stock-Based Award Activity

The following table provides a summary of stock-based awards for the 2008 Plan and 2015 Plan (the "Plans") for the six months ended June 30, 2018 and 2017:

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Stock Options	RSUs	Total	Stock Options	RSUs	Total
Outstanding as of December 31	1,916,832	86,875	2,003,707	2,129,856	—	2,129,856
Granted	31,720	120,000	151,720	7,500	72,588	80,088
Exercised	(154,766)	(24,375)	(179,141)	(4,822)	(72,361)	(77,183)
Forfeited	(102,500)	—	(102,500)	(386,034)	(227)	(386,261)
Outstanding as of June 30	1,691,286	182,500	1,873,786	1,746,500	—	1,746,500

D. Stock-Based Compensation

Stock-based compensation expense is included in the following line items in the accompanying statements of operations and comprehensive loss for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Research and development	$145	$38	$373	$74
General and administrative	247	117	431	162
Total stock-based compensation	$392	$155	$804	$236

13. Net Loss per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted net loss per share is computed similarly to basic net loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted net loss per share is the same as basic net loss per common share, since the effects of potentially dilutive securities are antidilutive.

As of June 30, 2018, and 2017, potentially dilutive securities include:

	Six Months Ended	
	June 30, 2018	June 30, 2017
Awards under equity incentive plan	1,691,286	1,746,500
Unvested restricted shares and restricted stock units	190,595	40,604
Warrants to purchase common stock	1,665,170	1,293,684
Total	3,547,051	3,080,788

The following table reconciles basic earnings per share of common stock to diluted earnings per share of common stock for the three and and six months ended June 30, 2018 and 2017 (in thousands, except share and per share amounts):

	Three Months Ended		Six Months Ended	
	June 30 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net loss	$(11,594)	$(11,504)	$(38,442)	$(16,477)
Accretion of convertible redeemable preferred stock	—	(554)	—	(578)
Deemed dividend on beneficial conversion feature	—	(404)	—	(404)
Net loss attributable to common stockholders	(11,594)	(12,462)	(38,442)	(17,459)
Undistributed earnings and net loss attributable to common stockholders, basic and diluted	(11,594)	(12,462)	(38,442)	(17,459)
Weighted average common shares outstanding, basic and diluted	30,658,494	13,807,861	30,601,425	8,465,053
Basic and diluted EPS	$(0.38)	$(0.90)	$(1.26)	$(2.06)

14. Subsequent Events

On July 30, 2018, the Company completed an underwritten public offering consisting of 4,250,000 shares of its common stock at a price to the public of $11.50 per share. Additionally, the Company granted the underwriters an option to purchase 637,500 additional shares of Savara common stock at the public offering price, less the underwriting discounts and commissions. The underwriters' option to purchase the additional shares expires 30 days from the date of the underwriting agreement, or on August 25, 2018. The net proceeds from the offering, after deducting the underwriting discounts and commissions and offering expenses, were approximately $45.7 million. The Company intends to use the net proceeds from the offering for working capital and general corporate purposes, which include, but are not limited to, the funding of clinical development of and pursuing regulatory approval for its product

candidates (including the expansion of the Molgradex NTM program with a new study in the U.S. in CF affected individuals with chronic NTM lung infection), the initiation of Molgradex pre-commercialization activities, and general and administrative expenses. The July 2018 public offering was executed under a new registration agreement filed with the Securities and Exchange Commission on June 29, 2018 and declared effective on July 13, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND

RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements contained herein that involve risks and uncertainties, such as Savara's plans, objectives, expectations, intentions and beliefs should be considered forward-looking statements. Savara's actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section entitled "Risk Factors" in this Quarterly Report on pages 30 through 51.

Overview

We are an orphan lung disease company. Our current pipeline comprises Molgradex, an inhaled granulocyte-macrophage colony-stimulating factor, or GM-CSF, in Phase 3 development for autoimmune pulmonary alveolar proteinosis ("aPAP"), in Phase 2a development for nontuberculous mycobacterial ("NTM") lung infection, and in preparation of Phase 2a development in cystic fibrosis ("CF") affected individuals with chronic NTM lung infection, and AeroVanc, a Phase 3 stage inhaled vancomycin for treatment of persistent methicillin-resistant Staphylococcus aureus ("MRSA") lung infection in individuals living with CF. Our strategy involves expanding our pipeline of potentially best-in-class products through indication expansion, strategic development partnerships and product acquisitions, with the goal of becoming a leading company in our field. Our management team has significant experience in orphan drug development and pulmonary medicine, identifying unmet needs, developing and acquiring new product candidates, and effectively advancing them to approvals and commercialization.

Together with our wholly owned subsidiaries, we operate in one segment and have our principal offices in Austin, Texas. Since inception, we have devoted substantially all of our efforts and resources to identifying and developing our product candidates, recruiting personnel, and raising capital. We have incurred operating losses and negative cash flow from operations and have no material product revenue from inception to date as we have not yet commenced commercial operations. In April 2017, we completed a business combination with Mast Therapeutics, Inc., a publicly held company, following which our pre-existing equity holders owned approximately 77% of the combined company and through which we changed the name to Savara Inc. and continued our pre-existing business operations (the "Merger"). From our inception as a private company prior to the Merger to June 30, 2018, we have raised net cash proceeds of approximately $154.1 million from public offerings of common stock and private placements of convertible preferred stock, note financings and debt financings.

We have never been profitable and have incurred operating losses in each year since inception. Our net losses were $38.4 million for the six months ended June 30, 2018, which included an impairment charge of $21.7 million on certain acquired IPR&D, and $29.8 million for the year ended December 31, 2017. As of June 30, 2018, we had an accumulated deficit of $106.6 million. Substantially all of our operating losses resulted from expenses incurred in connection with our research and development programs and from general and administrative costs associated with our operations.

We have chosen to operate by outsourcing our manufacturing and most of our clinical operations. We expect to incur significant additional expenses and increasing operating losses for at least the next several years as we initiate and continue the clinical development of, and seek regulatory approval for, our product candidates and add personnel necessary to operate as a public company with an advanced clinical candidate pipeline of products. In addition, operating as a publicly traded company following the Merger will involve the hiring of additional financial and other personnel, upgrading financial information systems and incurring costs associated with public company operations.

We expect that our operating losses will fluctuate significantly from quarter to quarter and year to year due to timing of clinical development programs and efforts to achieve regulatory approval.

As of June 30, 2018, we had cash of $23.6 million and short-term investments of $51.2 million. We will continue to require substantial additional capital to continue our clinical development and potential commercialization activities. Accordingly, we will need to raise substantial additional capital to continue to fund our operations. The amount and timing of our future funding requirements will depend on many factors, including the pace and results of our clinical development efforts. Failure to raise capital as and when needed, on favorable terms or at all, would have a negative impact on our financial condition and our ability to develop our product candidates.

Recent Events

At-the Market Sales Agreement Amendment

On April 28, 2017, we entered into a Common Stock Sales Agreement (the "Sales Agreement") with H.C. Wainwright & Co., LLC ("Wainwright"), as sales agent, which was amended by Amendment No. 1 to the Common Stock Agreement (the "Amendment") on June 29, 2018, pursuant to which we may offer and sell, from time to time, through Wainwright, shares of Savara's common stock, par value $0.001 per share (the "Shares"), having an aggregate offering price of not more than $60.0 million, in addition to the $2.3 million in shares sold prior to the Amendment. The Amendment was effective on July 13, 2018, at the time our Registration Statement on Form S-3, dated June 29, 2018 (the "New Registration Statement") was declared effective by the Securities and Exchange Commission (the "SEC").

The Shares will be offered and sold pursuant to the New Registration Statement. Subject to the terms and conditions of the Sales Agreement, Wainwright will use its commercially reasonable efforts to sell the Shares from time to time, based upon our instructions. We have provided Wainwright with customary indemnification rights, and Wainwright will be entitled to a commission at a fixed commission rate equal to 3.0% of the gross proceeds per Share sold. Sales of the Shares, if any, under the Sales Agreement may be made in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended. We have no obligation to sell any of the Shares and may at any time suspend sales under the Sales Agreement or terminate the Sales Agreement.

Public Offering

On July 30, 2018, we completed an underwritten public offering consisting of 4,250,000 shares of our common stock at a price to the public of $11.50 per share. Additionally, we granted the underwriters an option to purchase 637,500 additional shares of our common stock at the public offering price, less the underwriting discounts and commissions. The underwriters' option to purchase the remaining balance of additional shares expires 30 days from the date of the underwriting agreement, or on August 25, 2018. The net proceeds from the offering, after deducting the underwriting discounts and commissions and offering expenses, were approximately $45.7 million. We intend to use the net proceeds from this offering for working capital and general corporate purposes, which include, but are not limited to, the funding of clinical development of and pursuing regulatory approval for our product candidates (including the expansion of the Molgradex NTM program with a new study in the U.S. in CF affected individuals with chronic NTM lung infection), the initiation of Molgradex pre-commercialization activities, and general and administrative expenses.

Cardeas Asset Acquisition

In June 2018, we entered into an asset purchase agreement (the "Asset Purchase Agreement") with Cardeas Pharma Corporation ("Cardeas"), a biopharmaceutical company specializing in the development of inhaled antibiotics to treat hospital-acquired and multi-drug resistant bacterial respiratory infections from highly antibiotic-resistant organisms. Pursuant to the Asset Purchase Agreement, we acquired substantially all of the assets, including intellectual property, of Cardeas for a purchase price comprised of (i) an upfront payment of 107,579 shares of our common stock equal to approximately $1.0 million as of the date of consummation and (ii) certain contingent payments due upon the achievement of distinct development milestones.

Financial Operations Overview

Research and Development Expenses

Research and development expenses represent costs incurred to conduct research and development, such as the development of our product candidates. We recognize all research and development costs as they are incurred. Research and development expenses consist primarily of the following:

- expenses incurred under agreements with consultants and clinical trial sites that conduct research and development activities on our behalf;
- laboratory and vendor expenses related to the execution of clinical trials;
- contract manufacturing expenses, primarily for the production of clinical supplies; and
- internal costs that are associated with activities performed by our research and development organization and generally benefit multiple programs.

Where appropriate, these costs are allocated by product candidate. Any unallocated internal research and development costs consist primarily of:

- personnel costs, which include salaries, benefits and stock-based compensation expense;

- allocated facilities and other expenses, which include expenses for rent and maintenance of facilities and depreciation expense; and
- regulatory expenses and technology license fees related to development activities.

The largest component of our operating expenses has historically been our investment in research and development activities. The following table shows our research and development expenses for the three months ended June 30, 2018 and 2017 and six months ended June 30, 2018 and 2017:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in thousands)		(in thousands)	
Product candidates:				
AeroVanc	$4,232	$1,886	$7,271	$2,875
Molgradex	3,996	2,151	$8,777	4,109
Other	1,040	127	$1,759	127
Total research and development expenses	$9,268	$4,164	$17,807	$7,111

We expect research and development expenses will increase in the future as we advance our product candidates into and through clinical trials and pursue regulatory approvals, which will require a significant increased investment in regulatory support and contract manufacturing and inventory build-up related costs. In addition, we continue to evaluate opportunities to acquire or in-license other product candidates and technologies, which may result in higher research and development expenses due to license fee and/or milestone payments.

The process of conducting clinical trials necessary to obtain regulatory approval is costly and time consuming. We may never succeed in timely developing and achieving regulatory approval for our product candidates. The probability of success of our product candidates may be affected by numerous factors, including clinical data, competition, intellectual property rights, manufacturing capability and commercial viability. As a result, we are unable to accurately determine the duration and completion costs of our development projects or when and to what extent we will generate revenue from the commercialization and sale of any of our product candidates.

General and Administrative Expenses

General and administrative expenses consist of personnel costs, facility expenses, expenses for outside professional services, including legal, audit and accounting services, and changes in the fair value of certain contingent consideration. Personnel costs consist of salaries, benefits and stock-based compensation. Facility expenses consist of rent, other related costs and other supplies. We have incurred additional expenses as a result of becoming a public company following the Merger, including expenses related to compliance with the rules and regulations of the SEC and Nasdaq, additional insurance, investor relations, and other administrative expenses and professional services.

Critical Accounting Policies and Estimates

Our management’s discussion and analysis of financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with conformity with accounting principles generally accepted in the United States (“GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses. On an ongoing basis, we evaluate these estimates and judgments. We base our estimates on historical experience and on various

assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities and the recording of expenses that are not readily apparent from other sources. Actual results may differ materially from these estimates. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Accrued Research and Development Expenses

We record accrued expenses for estimated costs of our research and development activities conducted by external service providers, which include the conduct of clinical trials and contract formulation and manufacturing activities. We record the estimated costs of development activities based upon the estimated amount of services provided but not yet invoiced and include these costs in accrued liabilities in the consolidated balance sheet and within development expense in the consolidated statement of operations and comprehensive loss. These costs are a significant component of our research and development expenses. We record accrued expenses for these costs based on the estimated amount of work completed and in accordance with agreements established with these external service providers.

We estimate the amount of work completed through discussions with internal personnel and external service providers as to the progress or stage of completion of the services and the agreed-upon fee to be paid for such services. We make significant judgments and estimates in determining the accrued balance in each reporting period. As actual costs become known, we adjust our accrued estimates.

Stock-based Compensation

We recognize the cost of stock-based awards granted to employees based on the estimated grant-date fair value of the awards. The value of the portion of the award ultimately expected to vest is recognized as expensed ratably over the requisite service period. We recognize the compensation costs for awards that vest over several years on a straight-line basis over the vesting period. Forfeitures are recognized when they occur and may result in the reversal of compensation costs in subsequent periods as the forfeitures arise. We recognize the cost of stock-based awards granted to nonemployees at their then-current fair values as services are performed, and such awards are remeasured through the counterparty performance date.

We estimate the grant date fair value of a stock option award using the Black-Scholes option-pricing model. In determining the grant date fair value of a stock option award under the Black-Scholes model, we must make a number of assumptions, including the term of the award, the volatility of the price of our common stock over the term of the award, and the risk-free interest rate. Changes in these or other assumptions could have a material impact on the compensation expense we recognize.

Results of Operations — Comparison of Three Months Ended June 30, 2018 and 2017

	Three Months Ended		
	June 30, 2018	2017	Dollar Change
	(in thousands)		
Operating expenses:			
Research and development	$9,268	$4,164	$5,104
General and administrative	2,486	5,088	(2,602)
Depreciation	153	91	62
Total operating expenses	11,907	9,343	