saluda MEDICAL

Saluda Medical, Inc. and Subsidiaries

Consolidated Financial Statements
For the year ended June 30, 2024

Saluda Medical, Inc.

INDEX TO FINANCIAL STATEMENTS

Grant Thornton

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Saluda Medical Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheet of Saluda Medical Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of June 30, 2024 and June 30, 2023, the related consolidated statements of operations and comprehensive loss, redeemable convertible preferred stock and stockholders’ deficit, and cash flows for the two years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2024 and June 30, 2023, and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America (‘US GAAP’).

Going concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred a net loss after tax of $97.8 million and experienced net cash outflows from operating activities of $93.3 million for the year ended June 30, 2024. As at June 30, 2024, the group had an accumulated deficit of $425.1 million. These conditions, along with other matters as set forth in Note 1, raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

GRANT THORNTON AUDIT PTY LTD

Grant Thornton

We have served as the Company’s auditor since 2023.
Sydney, Australia
September 4, 2024

SALUDA MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2023	June 30, 2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 166,741	$ 71,794
Accounts receivable, net of allowance for credit losses of $0.6 million as of both June 30, 2023 and 2024	5,938	11,128
Current inventories	16,808	28,980
Prepaid expenses and other current assets	4,514	4,998
Total current assets	194,001	116,900
Long-term inventories	6,197	700
Property and equipment, net	6,277	5,454
Operating lease right-of-use asset	4,275	3,625
Other non-current assets	426	664
TOTAL ASSETS	$ 211,176	$ 127,343
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 14,932	$ 20,897
Current operating lease liabilities	585	821
Total current liabilities	15,517	21,718
Long-term debt	62,843	67,712
Long-term operating lease liabilities	3,960	3,254
Warrant liabilities	3,900	2,900
Other long-term liabilities	1,455	1,704
TOTAL LIABILITIES	$ 87,675	$ 97,288
Commitments and contingencies (Note 15)		
Redeemable convertible preferred stock, $0.0001 par value; 43,516,137 shares authorized as of June 30, 2023 and 2024; 42,046,228 shares issued and outstanding as of June 30, 2023 and 2024; aggregate liquidation preference of $0.4 million, as of June 30, 2023 and 2024	386,398	386,398
STOCKHOLDERS' DEFICIT:		
Common stock, $0.0001 par value; 74,982,965 shares authorized as of June 30, 2023 and 2024; 16,720,960 and 16,728,222 shares issued and outstanding as of June 30, 2023 and 2024, respectively	2	2
Additional paid-in capital	68,657	72,419
Accumulated other comprehensive loss	(4,290)	(3,671)
Accumulated deficit	(327,266)	(425,093)
TOTAL STOCKHOLDERS' DEFICIT	(262,897)	(356,343)
TOTAL LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT	$ 211,176	$ 127,343

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

SALUDA MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Dollars in thousands, except share and per share data)

	Year Ended June 30, 2023	Year Ended June 30, 2024
Revenue	$ 22,234	$ 51,682
Cost of revenue	18,195	28,568
Gross profit	4,039	23,114
Operating expenses:		
Selling, general and administrative	68,151	93,046
Research and development	28,110	29,204
Total operating expenses	96,261	122,250
Loss from operations	(92,222)	(99,136)
Other income (expenses):		
Interest income	3,213	5,470
Interest expense	(4,666)	(5,002)
Foreign exchange gain	1,430	114
Change in fair value of warrant liabilities	24	1,000
Other income	671	—
Loss before income taxes	(91,550)	(97,554)
Provision for income taxes	614	273
Net loss	$ (92,164)	$ (97,827)
Other comprehensive loss:		
Changes in foreign currency translation adjustment	(15,227)	619
Comprehensive loss	$ (107,391)	$ (97,208)
Net loss per share, basic and diluted	$ (5.51)	$ (5.85)
Weighted-average number of common shares used to compute basic and diluted net loss per share	16,712,767	16,723,477

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

SALUDA MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT
(Dollars in thousands, except share data)

	Redeemable Convertible Preferred Stock		Common Stock			Accumulated Other		Total
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Deficit
Balances as of June 30, 2022	23,467,696	$ 243,001	16,697,959	$ 2	$ 62,274	$ 10,937	$ (235,102)	$ (161,889)
Exercise of stock options	—	—	23,001	—	122	—	—	122
Stock-based compensation	—	—	—	—	6,261	—	—	6,261
Issuance of Series E Preferred Stock, net of issuance costs of $6,602	18,578,532	143,397	—	—	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	(15,227)	—	(15,227)
Net loss	—	—	—	—	—	—	(92,164)	(92,164)
Balances as of June 30, 2023	42,046,228	386,398	16,720,960	2	68,657	(4,290)	(327,266)	(262,897)
Exercise of stock options	—	—	7,262	—	26	—	—	26
Stock-based compensation	—	—	—	—	3,736	—	—	3,736
Foreign currency translation adjustment	—	—	—	—	—	619	—	619
Net loss	—	—	—	—	—	—	(97,827)	(97,827)
Balances as of June 30, 2024	42,046,228	$ 386,398	16,728,222	$ 2	$ 72,419	$ (3,671)	$ (425,093)	$ (356,343)

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

SALUDA MEDICAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended June 30, 2023	Year Ended June 30, 2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (92,164)	$ (97,827)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,287	1,885
Amortization of right-of-use asset	1,022	743
Loss on property and equipment disposal	70	64
Unrealized (loss) gain on foreign exchange rates	(45)	225
Inventory write-down	289	144
Stock-based compensation	6,261	3,736
Non-cash interest expense	4,666	5,002
Gain on remeasurement of warrant liabilities	(24)	(1,000)
Bad debt expense	557	368
Changes in operating assets and liabilities:		
Accounts receivable	(3,943)	(5,737)
Inventories	(9,146)	(6,652)
Prepaid expenses and other current and non-current assets	(69)	(357)
Income taxes payable	427	(125)
Lease liabilities	(2,241)	(470)
Accounts payable, accrued liabilities, and accrued payroll	7,395	6,679
Net cash used in operating activities	(85,658)	(93,322)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,374)	(1,078)
Net cash used in investing activities	(2,374)	(1,078)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock to employees on exercise of options	122	26
Proceeds from Series E Preferred Stock, net of issuance costs (Payments of issuance costs)	143,707	(310)
Net cash provided by (used in) financing activities	143,829	(284)
Effect of exchange rate changes on cash and cash equivalents	(691)	(263)
Net increase (decrease) in cash and cash equivalents	55,106	(94,947)
Cash and cash equivalents at beginning of year	111,635	166,741
Cash and cash equivalents at end of year	$ 166,741	$ 71,794
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for income taxes	$ 188	$ 863
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Right-of-use assets obtained in exchange for lease liability	$ 1,989	$ —
Series E Preferred Stock issuance costs in accounts payable and accrued liabilities	$ 310	$ —

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

Note 1. Description of the Business

Business

Saluda Medical, Inc. (the “Company” or “Saluda US”) and its subsidiaries, including Saluda Medical Pty Limited (“Saluda AU”), is a commercial-stage medical device company focused on developing treatments for chronic neurological conditions using the Company’s novel neuromodulation platform. The Company’s closed-loop, dose-control platform is designed to sense and measure neural responses to stimulation and automatically adjust therapy based on real-time neurophysiological feedback. The Company’s first product, the Evoke System, is designed to treat chronic neuropathic pain. The Company began a limited commercial launch of the Evoke System in late 2019 in certain European markets, including the United Kingdom, and in 2021 in Australia, and the Company initiated a commercial launch in the United States in early 2023.

Redomiciliation

On April 2, 2023, the Company, a newly formed Delaware corporation, acquired all of the issued share capital of Saluda Medical Pty Limited (“Saluda AU”), an Australian incorporated company, through a share exchange (collectively the “Redomiciliation”). Under the Redomiciliation, all of the issued and outstanding ordinary shares of Saluda AU were exchanged for newly issued shares of common stock of the Company and all of the issued and outstanding preference shares of Saluda AU were exchanged for newly issued shares of redeemable convertible preferred stock of the Company. Additionally, all outstanding and unexercised common stock options held in Saluda AU continued to remain in effect under the same terms and conditions with the exception that the shares issued upon exercise of any outstanding Saluda AU stock options will be common stock of the Company rather than ordinary shares of Saluda AU. Lastly, all warrants were amended so that the shares issuable upon exercise of the warrants will be redeemable convertible preferred stock in the Company rather than preference shares in Saluda AU.

The consolidated financial statements herein reflect the historical operating results of Saluda AU and its subsidiaries prior to the Redomiciliation and the Company and its subsidiaries following the Redomiciliation. All share and per share information in these consolidated financial statements has been retroactively adjusted to reflect the effect of the Redomiciliation for all periods presented, unless otherwise indicated.

Liquidity

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

During the year ended June 30, 2024, the Company had net loss of $97.8 million and had $93.3 million of cash used in operations. As of June 30, 2024, the Company had an accumulated deficit of $425.1 million. The Company has financed operations to date primarily through borrowings under a debt agreement, the issuance of common stock, and the issuance of redeemable convertible preferred stock. Given the Company’s projected operating requirements and its existing cash and cash equivalents, the Company is projecting insufficient liquidity to sustain its operations and meet its obligations through one year following the date that the financial statements are issued. These conditions and events raise substantial doubt about the Company’s ability to continue as a going concern.

In response to these conditions, management is currently evaluating different strategies to obtain the required funding of future operations. Financing strategies may include, but are not limited to, the public or private sale of equity, debt financing or funds from other capital sources, such as collaborations, strategic alliances, divestment of non-core assets, or licensing arrangements with third parties. There can be no assurances that the Company will be able to secure additional financing or, if available, that it will be sufficient to meet its needs or on favorable terms. Because management’s plans have not yet been finalized and are not within the Company’s control, the implementation of such plans cannot be considered probable. As a result, the Company has concluded that management’s plans do not alleviate substantial doubt about the Company’s ability to continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Risks and Uncertainties

The Company is subject to a number of risks similar to other medical device companies including, but not limited to, rapid technological changes, ability to design and develop new features, competition from substitute products and services, management of international activities, protection of proprietary rights, and the need to obtain additional financing. Additionally, factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, continued demand for the Company's products, stability of global financial markets, cybersecurity breaches, and other disruptions that could compromise the Company's information or results, business disruptions that are caused by natural disasters or pandemic events, geopolitical issues, competition from substitute products and larger companies, government regulations and oversight, and dependence on key individuals.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company prepares its consolidated financial statements and related disclosures in conformity with generally accepted accounting principles in the United States ("U.S. GAAP"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The Company's fiscal year end is June 30.

Emerging Growth Company Status

The Company is an emerging growth company, as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it: (i) is no longer an emerging growth company or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, these consolidated financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates. The Company expects to use the extended transition period for any new or revised accounting standards during the period in which it remains an emerging growth company.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and judgments that affect the amounts of assets, liabilities, and expenses, and related disclosure of contingent assets and liabilities reported in the consolidated financial statements and accompanying notes. Significant accounting estimates and management judgments reflected in the consolidated financial statements include, but are not limited to, revenue recognition and the allocation of the transaction price, stock-based compensation and the valuation of the stock-based awards, valuation of warrants, inventory valuation, measurement of right-of-use assets and operating lease liabilities, and income taxes. Actual results could differ from those estimates, and such differences could be material to the Company's consolidated financial statements.

Foreign Currency Translation

The financial statements of the Company's subsidiaries that have a functional currency other than the U.S. dollar are translated to U.S. dollars at the exchange rate in effect at the balance sheet dates, and revenues and expenses are translated at the average exchange rates during the year. Translation adjustments are recorded as foreign currency translation adjustment within accumulated other comprehensive loss, which is a separate component of stockholders' equity, and the effect of exchange rate changes on cash and cash equivalents are reflected on the consolidated statements of cash flows. Gains and losses for transactions denominated in a currency other than the functional currency of the entity are included in the consolidated statements of operations and comprehensive loss. The Company expects the foreign currency gain (loss) to continue to fluctuate as long as the Company continues to hold monetary assets and liabilities at its subsidiaries. Market uncertainty could potentially lead to significant volatility with foreign currency exchange rates, which could result in additional foreign currency gain (loss).

As of June 30, 2023 and prior, the functional currency of Saluda AU was Australian dollars. Effective July 1, 2023, Saluda AU's functional currency was determined to be U.S. dollars due to Saluda AU's strategic shift to U.S. focused operations. As a result of the functional currency change of Saluda AU to U.S. dollars, beginning on July 1, 2023 no translation from Saluda AU to Saluda US is required as both entities have a functional currency of U.S. dollars. The effects of the change in functional currency of Saluda AU were not significant to the Company's consolidated financial statements.

Segments

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

The following table presents the Company's property and equipment, net by geography (in thousands):

	As of June 30, 2023	As of June 30, 2024
Australia	$ 4,560	$ 4,332
United States	1,572	970
Europe	145	152
Total	$ 6,277	$ 5,454

Deferred Offering Costs

The Company capitalizes certain legal, professional, accounting, and other third-party fees that are directly associated with in-process equity financings as deferred offering costs until such financings are consummated. After consummation of the equity financing, these costs are recorded in stockholders' equity (deficit) as a reduction of proceeds generated as a result of the offering. Should the in-process equity financing be abandoned, the deferred offering costs will be expensed immediately as a charge to operating expenses in the consolidated statements of operations and comprehensive loss. As of June 30, 2023 and 2024, there were zero and $0.7 million of deferred offering costs, respectively, which are included in prepaid expenses and other current assets in the consolidated balance sheets.

Fair Value of Financial Instruments

Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities).

Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2—Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3—Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. The Company's assessment of the significance of a specific input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability.

The carrying amounts of cash and cash equivalents, including term deposits, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their short maturities.

The Company uses Level 2 inputs (see Note 4) to derive the estimated fair value of its term deposits, which are measured on a recurring basis. The Company uses Level 3 inputs (see Note 4) to derive the estimated fair value of its warrant liabilities, which are measured on a recurring basis. The Company did not have any other assets or liabilities that were measured using Level 3 inputs on a recurring or nonrecurring basis during the years ended June 30, 2023 and 2024. There were no transfers between levels during the years ended June 30, 2023 and 2024.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, term deposits, and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are valued at standard cost, which is evaluated at each reporting date to reflect current conditions so that standard costs approximate actual cost computed on a first-in, first-out basis. Net realizable value is the estimated selling price in the ordinary course of business less any applicable expenses.

The Company periodically evaluates the carrying value of inventory on hand for potential excess amount over demand using the same lower of cost or net realizable value approach. Additionally, the Company distinguishes between short-term and long-term inventory based on the anticipated time frame until sale. Materials procured significantly in advance, resulting in inventory on hand for periods exceeding 12 months, are managed as part of a strategic approach to ensure availability and cost-effectiveness. Such long-term inventory is not indicative of obsolescence but reflects the Company's procurement strategy to secure essential materials. The Company also periodically evaluates inventory quantities in consideration of actual loss experience. The Company's policy is to write down inventory that has become obsolete, inventory that has a cost basis in excess of its expected net realizable value, and inventory in excess of expected requirements. The estimate of excess quantities is judgmental and primarily dependent on the Company's estimates of future demand for a particular product. If the estimate of future demand is inaccurate based on actual sales, the Company may increase the write-down for excess inventory for that component and record a charge to the cost of goods sold in the accompanying consolidated statements of operations and comprehensive loss.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recorded at invoiced amounts, net of an allowance for credit losses. The Company assesses the allowance for credit losses on accounts receivable in accordance with ASC 326, which requires an expected loss model. The allowance for credit losses is estimated based on a range of factors, including historical credit loss experience, customer financial condition, current economic conditions, and reasonable and supportable forecasts of future economic conditions.

Account balances are written off against the allowance for credit losses when management determines that the receivable will not be collected. Recoveries of receivables previously written off are recorded when received. As of both June 30, 2023 and 2024, the allowance for credit losses was $0.6 million.

During the years ended June 30, 2023 and 2024, the Company recognized $0.6 million and $0.4 million, respectively, in bad debt expense, which was recorded in selling, general and administrative expenses in the consolidated statements of operations and comprehensive loss.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk primarily consist of cash and cash equivalents, and accounts receivables. The Company's cash and cash equivalents held with large financial institutions in the United States and deposits exceed the Federal Deposit Insurance Corporation's insurance limit. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. The Company has not experienced any losses, but the Company cannot be assured that it will not experience losses on these deposits.

As of June 30, 2023 and 2024, the Company had accounts receivable balances exceeding 10% of total accounts receivable with the following customers:

	As of June 30, 2023	As of June 30, 2024
Customer A	15%	*

** Concentration is below 10%*

During the years ended June 30, 2023 and 2024, the Company derived more than 10% of its total revenue from the following customers:

	Year Ended June 30, 2023	Year Ended June 30, 2024
Customer A	13%	*

** Concentration is below 10%*

The Company is dependent on third-party contract manufacturers and suppliers, some of which are single source, to produce and package all elements comprising the Evoke System. If these suppliers and manufacturers fail to supply the Evoke System or its components or subcomponents in sufficient quantities, at acceptable prices, or at all, it could have a material adverse effect on the financial condition and results of operations of the Company.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is included in cost of revenue and operating expenses on the accompanying consolidated statements of operations and comprehensive loss. Depreciation is calculated using the straight-line method over the estimated economic useful life of the respective asset, which is determined on an asset-by-asset basis according to the classifications below:

	Useful Life
Office Equipment	3 – 12 Years
Leasehold Improvements	Shorter of 3 – 9 Years or remaining lease term
Manufacturing Equipment	3 – 8 Years
Laboratory Equipment	2 – 12 Years

Property and equipment are derecognized upon disposal or when there is no future economic benefit to the Company. Gains and losses between the net carrying amount and the disposal proceeds are reflected in operating expenses in the consolidated statements of operations and comprehensive loss.

Impairment of Long-Lived Assets

Long-lived assets consist primarily of property and equipment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require that a long-lived asset be tested for possible impairment, recoverability is measured by comparing the carrying amount to the future net undiscounted cash flows expected to be generated by the long-lived asset (or group of assets). If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. The Company has not recognized any impairment charges during the years ended June 30, 2023 and 2024.

Leases

The Company determines if an arrangement is a lease at inception and determines the classification of the lease, as either operating or finance, at commencement. Material leases with a term greater than one year are recognized in right-of-use (“ROU”) assets and current and non-current lease liabilities, as applicable, in the Company’s consolidated balance sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company estimates the incremental borrowing rate to reflect the profile of secured borrowing over the expected term of the leases based on the information available at the lease commencement date.

The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has elected the practical expedient to not separate lease and non-lease components. The Company's non-lease components are primarily related to common area maintenance and real estate taxes, which varies based on future outcomes, and thus is recognized in selling, general and administrative expenses when incurred. The Company's lease agreements do not contain any material restrictions, covenants, or any material residual value guarantees.

Long-term Debt

Long-term debt is carried at the principal amount borrowed less debt issuance costs. The costs incurred by the Company for issuing long-term debt are capitalized and amortized as an increase to interest expense over the life of the debt using the effective interest method. Interest on the long-term debt is accrued and added to the principal balance of the debt in the consolidated balance sheets.

Income Taxes

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the temporary differences between the financial statement and tax basis of assets and liabilities using the enacted tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in income tax rates is recognized in the consolidated statements of operations and comprehensive loss in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts the Company believes are more likely than not to be realized.

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

The Company records uncertain tax positions on the basis of a two-step process whereby (1) a determination is made as to whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold the Company recognizes the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with the related tax authority. The Company's policy is to recognize interest and penalties related to income taxes as a component of income tax expense. No material interest or penalties related to income taxes have been recognized in the consolidated statements of operations and comprehensive loss for the years ended June 30, 2023 and 2024.

Warrant Liabilities

The Company has issued warrants to purchase redeemable convertible preferred stock in conjunction with certain equity financings. The Company accounts for its issued warrants as liabilities in accordance with ASC 480. The liability-classified warrants are initially measured at fair value, resulting in an implied discount on the related financing arrangement (recognized as a partial offset to the principal balance of the financing). Changes in fair value of the warrant liabilities are recognized in the consolidated statements of operations and comprehensive loss.

Redeemable Convertible Preferred Stock

The Company recorded its redeemable convertible preferred stock at fair value on the dates of issuance, net of issuance costs. The redeemable convertible preferred stock is presented as mezzanine equity in the consolidated balance sheets due to the stock containing certain redemption features that are not solely within the Company's control. When it is probable that a redeemable convertible preferred stock will become redeemable, adjustments are recorded to adjust the carrying values to the redemption values. No adjustments have been recorded in the years ended June 30, 2023 and 2024 as the redeemable convertible preferred stock is not redeemable nor probable of being redeemable. Refer to Note 10 for more information on the rights, preferences, privileges, and restrictions associated with the redeemable convertible preferred stock.

Revenue Recognition

Revenue arises from the sale of medical devices. The Company determines revenue recognition through the following steps:

- Identify the contract with a customer;
- Identify the performance obligation(s);
- Determine the transaction price;
- Allocate the transaction price to the performance obligation(s); and
- Recognize revenue when/as performance obligation(s) are satisfied.

Sales of medical devices

Revenue from the sale of medical devices is recognized when obligations under the terms of contracts with customers are satisfied, which occurs when the Company transfers control of products to its customers. Revenue is measured as the amount of consideration expected to be received in exchange for transferring the products. Payment terms are typically 30 to 90 days.

For most sales, the sales representative delivers product at the point of implantation at hospitals or medical facilities. In these instances, revenue is recognized upon completion of the procedure and authorization, which represents the point in time when control of the product transfers to the customers.

For certain sales within Europe, products are shipped directly from the Company's distribution centers to hospitals, medical facilities, and distributors who order in advance of implantation. In these instances, the transfer of control of the products occurs at the time of shipment. Customers within Europe are obligated to pay within specified terms regardless of when, or if, they ever sell or use the products. The Company does not offer rights of return or price protection.

Revenue is measured as the amount of consideration the Company expects to receive, adjusted for any applicable estimates of variable consideration and other factors affecting the transaction price, which is based on the invoiced price, in exchange for transferring products. Variable consideration related to certain customer sales incentives is estimated based on the amounts expected to be paid based on the agreement with the customer using probability assessments. Amounts recorded as revenue are net of sales returns, trade discounts and the amount of taxes.

The Company allocates the transaction price to each performance obligation based on a relative standalone selling price ("SSP"). SSP for the sale of medical devices is based off the list price of the spinal cord simulation system.

The Company had no material unsatisfied performance obligations nor satisfied but unrecognized performance obligations as of June 30, 2024. Additionally, the Company had no material contract assets or liabilities as of June 30, 2023 or 2024.

Practical Expedients and Exemptions - The Company recognizes revenue upon the transfer of control of the product and there are no material future performance obligations beyond such transfer. As a result, the Company has elected not to disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which it recognizes revenue at the amount to which it has the right to invoice for services performed. The Company has elected to account for shipping and handling activities that occur after the customer has obtained control as a fulfillment activity, and not a separate performance obligation. Such shipping and handling costs are expensed as incurred and are included in cost of revenue. The Company does not capitalize incremental costs to obtain a contract when the amortization period of the asset is one year or less.

Cost of Revenue

Cost of revenue consists primarily of acquisition costs for the components of the spinal cord stimulation systems, overhead costs, scrap and inventory obsolescence, warranty replacement costs, as well as distribution-related expenses such as logistics and shipping costs, net of shipping costs charged to customers. The overhead costs include the cost of material procurement, depreciation expense for production equipment, and operations supervision and management personnel, including employee compensation, supplies, and travel.

Research and Development

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

Selling, General and Administrative

Selling, general and administrative expenses include personnel-related costs, including stock-based compensation, facility costs, bad debt costs, professional service fees, software license fees, advertising costs, patent related costs, travel costs and other general overhead costs, including depreciation expense for office and manufacturing equipment and leasehold improvements, which support the Company's operations.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718. The Company accounts for all stock-based awards granted to employees and non-employees as stock-based compensation expense based on the grant date fair value.

Stock-based compensation is classified in the accompanying consolidated statements of operations and comprehensive loss based on the function to which the related services are provided. The Company recognizes stock-based compensation expense for employees on a straight-line basis over the requisite service period. Forfeitures are accounted for as they occur.

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model, which requires inputs based on the following subjective assumptions:

Expected Term—The expected term of stock-based awards represents the period that the stock-based awards are expected to remain outstanding. The Company has elected to use the midpoint of the stock options' vesting term and contractual expiration period to compute the expected term, as the Company does not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

Volatility—The Company estimates volatility for option grants by evaluating the average historical volatility of a peer group of companies for the period immediately preceding the option grant for a term that approximates the options' expected term.

Risk-free Rate—The risk-free rate assumption is based on the U.S. Treasury zero coupon issues in effect at the time of grant for periods corresponding with the expected term of the option.

Dividends—The Company has never paid, and does not anticipate paying, dividends on its common stock. Therefore, the Company uses an expected dividend yield of zero.

Interest Income

Interest income consists of interest earned on the Company's investments in term deposits.

Other Income

Other income represents research and development incentive income, which includes payments under the Research and Development Tax Incentive from the Australian government. The Research and Development Tax Incentive is one of the key elements of the Australian government's support for Australia's innovation system and was developed to assist businesses recover some of the costs of undertaking research and development. There was no research and development incentive income recognized by the Company for the year ended June 30, 2024.

Other Comprehensive Income (Losses)

Other comprehensive income (loss) represents all changes in stockholders' equity except those resulting from distributions to stockholders. The Company's unrealized gain (loss) on foreign currency translation adjustments represents the components of other comprehensive income (loss) that are excluded from the reported net loss and are presented in the consolidated statements of operations and comprehensive loss.

Earnings per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average shares outstanding during the period, without consideration for common stock equivalents. Diluted earnings (loss) per share is calculated by adjusting weighted-average shares outstanding for the dilutive effect of common stock equivalents outstanding for the period, determined using the treasury-stock and if-converted methods. Since the Company had net loss in the years ended June 30, 2023 and 2024, basic and diluted net loss per common share are the same.

Recently Issued Accounting Standards Not Yet Adopted

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. This ASU updates reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU is effective for all entities for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently assessing the impact of the adoption of this update but does not expect there to be a material impact on its consolidated financial statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09, *Improvements to Income Tax Disclosures*, which requires expanded income tax disclosures primarily related to an entity's effective tax rate reconciliation and income taxes paid. This ASU is effective for fiscal years beginning after December 15, 2024 and should be adopted on a prospective basis. Early adoption is permitted. The Company is currently assessing the impact of the adoption of this update on its consolidated financial statements and related disclosures.

Recently Adopted Accounting Standards

The Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and all subsequent amendments to the ASU (collectively, "ASC 326") as of July 1, 2023, using the modified retrospective transition method. ASC 326 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected by introducing an allowance for credit losses that reflects an entity's current estimate of credit losses expected to be incurred over the life of the financial asset. The adoption of ASC 326 did not have a material impact on the Company's consolidated financial statements.

The Company performed an evaluation of the applicable criteria, including the aging of its trade receivables, recent write-off history and other factors related to future expected macroeconomic conditions. As a result of the evaluation, the Company determined that no adjustment was required to the level of its allowances for bad debts or to the carrying value of any other financial asset as of the adoption date of July 1, 2023.

Note 3. Revenue

Revenue from the sale of medical devices is recognized when the Company's performance obligation to transfer control of the goods to the customer is satisfied which occurs either at the point of the sale when delivery is completed by way of shipping the product to the location specified by the customer and the ownership risks have therefore passed to the customer pursuant to the contract, or when implantation of the medical device has been completed.

Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring the goods and is net of sales returns and trade discounts.

The following table presents revenue by geography, based on the billing address of the customer (in thousands):

	Year Ended June 30, 2023	Year Ended June 30, 2024
United States	$ 6,481	$ 32,897
Australia	4,715	7,045
Europe:		
Germany	3,475	4,174
Netherlands	3,493	2,835
United Kingdom	3,131	2,578
Other foreign countries	939	2,153
Total revenue	$ 22,234	$ 51,682

Note 4. Fair Value Measurements

Fair value accounting is applied for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The following tables provide the financial instruments measured at fair value on a recurring basis (amounts in thousands):

	As of June 30, 2023 Fair Value Hierarchy Level 1	Level 2	Level 3	Total
Term deposits	—	$ 152,862	—	$ 152,862
Total financial assets	—	$ 152,862	—	$ 152,862
Warrant liabilities	—	—	$ 3,900	$ 3,900
Total financial liabilities	—	—	$ 3,900	$ 3,900

	As of June 30, 2024 Fair Value Hierarchy Level 1	Level 2	Level 3	Total
Term deposits	—	$ 62,481	—	$ 62,481
Total financial assets	—	$ 62,481	—	$ 62,481
Warrant liabilities	—	—	$ 2,900	$ 2,900
Total financial liabilities	—	—	$ 2,900	$ 2,900

Term Deposits

The Company has short-term, highly liquid investments classified as cash equivalents, which are invested in short-term deposits with original maturities of three months or less. The Company records cash equivalents at their original purchase prices plus interest that has accrued at the stated rate.

Warrants

In connection with the Series D preference shares issuance, Saluda AU issued warrants that were exercisable into 2,939,816 shares of Series D preference shares of Saluda AU or, upon an initial public offering ("IPO"), the warrants were exercisable into ordinary shares of Saluda AU at the conversion price per share of the Series D preference shares at the time of IPO. The warrants were exercisable after the exercise commencement date, which was the earliest to occur of: (i) January 1, 2023; (ii) in the event certain agreed commercialization milestones were achieved, then on the date of that achievement; or (iii) a liquidation event. If the earliest event was the date the agreed commercial milestones were achieved, the options were subject to the following forfeitures:

a. If the milestones were achieved by September 1, 2022, then 100% of the warrants would be forfeited.

b. If the milestones were achieved between September 1, 2022 and December 31, 2022 then 50% of the warrants would be forfeited.

c. If the milestones were achieved after December 31, 2022 then no warrants would be forfeited.

The warrants became exercisable on December 13, 2022, upon an FDA approval milestone being met and, as a result, 50% of the warrants were forfeited leaving 1,469,908 warrants outstanding.

As a result of the Redomiciliation, all warrants were amended so that the shares issuable upon exercise of the warrants will be redeemable convertible preferred stock in the Company rather than preference shares in Saluda AU or, upon an IPO, the warrant will be exercisable into common stock of the Company rather than ordinary shares of Saluda AU. The warrants have an exercise price per share of $12.76 and expire on December 13, 2027.

The warrants are recognized as liabilities in the consolidated balance sheets and are subject to re-measurement at each balance sheet date from issuance. Any change in fair value is recognized as a component of the consolidated statements of operations and comprehensive loss. As of June 30, 2024, the warrants outstanding are all currently exercisable into 1,469,908 shares of Series D redeemable convertible preferred stock, or, upon an IPO, exercisable into 1,617,547 shares of common stock based on the conversion price per share of the Series D redeemable convertible preferred stock (see Note 10).

The fair value of the warrant liabilities was determined based on significant inputs not observable in the market, which represents a Level 3 measurement within the fair value hierarchy. The fair value of the warrant liabilities uses the hybrid method. The hybrid method is often used when a company is expecting a liquidity event in the near future and is a combination of the option-pricing and probability-weighted expected return methods. Estimates and assumptions impacting the fair value measurement include the fair value per share of the underlying shares of redeemable convertible preferred stock, risk-free interest rate, expected dividend yield, expected volatility of the price of the underlying redeemable convertible preferred stock, and the remaining contractual term of the warrants. The most significant assumption in the model impacting the fair value of the warrants is the fair value of the Company's redeemable convertible preferred stock as of each remeasurement date.

A summary of the changes in the fair value of the warrant liabilities is as follows (amounts in thousands):

	Warrant Liabilities
Fair value as of June 30, 2022	$ 4,039
Change in fair value of warrant liabilities	(24)
Foreign exchange impact of redomiciliation	(115)
Fair value as of June 30, 2023	3,900
Change in fair value of warrant liabilities	(1,000)
Fair value as of June 30, 2024	$ 2,900

Note 5. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following (in thousands):

	As of June 30, 2023	As of June 30, 2024
Accrued expenses	$ 6,084	$ 9,037
Payroll liabilities	7,254	8,805
Accounts payable	998	2,609
Current tax payable	596	446
Total accounts payable and accrued liabilities	$ 14,932	$ 20,897

Note 6. Inventories

Inventories consist of the following (in thousands):

Current	As of June 30, 2023	As of June 30, 2024
Raw materials	$ 3,374	$ 4,724
Work in progress	2,609	7,365
Finished goods	10,825	16,891
Total current inventories	$ 16,808	$ 28,980

Long-term	As of June 30, 2023	As of June 30, 2024
Raw materials	$ 5,377	$ 558
Finished goods	820	142
Total long-term inventories	$ 6,197	$ 700

Note 7. Property and Equipment, net

Property and equipment, net consists of the following (in thousands):

	As of June 30, 2023	As of June 30, 2024
Office equipment	$ 3,826	$ 3,972
Leasehold improvements	3,045	3,275
Manufacturing equipment	1,840	2,070
Laboratory equipment	747	818
Total	9,458	10,135
Less: accumulated depreciation	(3,181)	(4,681)
Property and equipment, net	$ 6,277	$ 5,454

Depreciation expense for the year ended June 30, 2023 and 2024 was $1.3 million and $1.9 million, respectively, with $1.2 million and $1.8 million, respectively, included in selling, general and administrative expenses and $0.1 million and $0.1 million, respectively, included in research and development expenses in the consolidated statements of operations and comprehensive loss.

Note 8. Leases

The Company has operating leases for office space, manufacturing facilities, warehousing and research and development activities. Leases with terms of 12 months or less are not recorded on the consolidated balance sheets, as the related lease expenses are recognized on a straight-line basis over the term of the lease. The Company has no finance leases.

As of June 30, 2024, the Company had leases with remaining terms of 1 year to 5 years, with certain leases that contain options to extend the lease term for up to an additional 5 years, which are not included in the initial lease terms as they are not reasonably certain to be exercised. Lease expense was $1.7 million and $1.3 million for the years ended June 30, 2023 and 2024, respectively, including variable lease expense of $0.5 million and $0.3 million, respectively, and is included in selling, general and administrative expenses on the accompanying consolidated statements of operations and comprehensive loss.

The weighted-average lease terms and discount rates are as follows:

	As of June 30, 2023	As of June 30, 2024
Weighted-average remaining lease term	5.54 years	4.65 years
Weighted-average discount rate	5.85%	6.06%

As of June 30, 2024, the undiscounted maturity of lease liabilities are as follows (in thousands):

Year ending June 30,	Operating Leases
2025	$ 1,023
2026	975
2027	921
2028	847
2029	881
Total lease payments	4,647
Less: interest	(572)
Present value of future lease payments	4,075
Less: current portion of operating lease liabilities	821
Long-term operating lease liabilities	$ 3,254

The operating cash outflows included in the measurement of the operating lease liabilities was $1.3 million and $0.8 million for the years ended June 30, 2023 and 2024, respectively.

Note 9. Debt

In March 2019, the Company entered into a non-convertible subordinated term loan agreement with Covidien Group S.a.r.l, which initially provided for borrowings up to $90.0 million under a term loan ("the Term Loan"), which matures on September 11, 2025. The Company initially drew $45.0 million in connection with entering into the Term Loan and had the ability, upon written request, to borrow up to an additional $45.0 million (the "Second Tranche"). In April 2023, the Company entered into an amendment to the Term Loan, which removed the availability of the Second Tranche.

The Term Loan bears a fixed interest rate of 8.0% per annum, effective from the issuance date until the earlier of the loan's full repayment or its maturity date. Interest is payable upon the loan's maturity. The entire loan amount, along with all accrued and unpaid interest, is payable in full on the maturity date. As the Term Loan was not issued at a discount or premium, the effective rate is 8.0%. The issuance costs were immaterial.

Furthermore, the Company retains the option to prepay the outstanding amount, partially or in full, without incurring penalties or premiums.

The Term Loan is governed by standard affirmative and restrictive covenants, which regulate the Company's operational and financial flexibility. These include limitations on entering fundamental transactions, incurring additional debt, creating liens, paying dividends or making distributions to shareholders, making investments, merging or consolidating with other entities, and engaging in transactions with affiliates. The agreement does not impose any financial covenants.

Interest expense on the Company's term loan for the years ended June 30, 2023 and 2024 totaled $4.7 million and $5.0 million, respectively.

The following table summarizes the Company's stated debt maturities and scheduled principal repayments as of June 30, 2024 (in thousands):

Year ending June 30,	
2025	$ —
2026	45,000
Total future principal payments	45,000
Plus: Amounts representing interest:	22,712
Total amount of term note repayments	$ 67,712

Note 10. Redeemable Convertible Preferred Stock

Redeemable convertible preferred stock consisted of the following as of both the years ended June 30, 2023 and 2024 (in thousands, except share data):

	Issuance Date*	Shares Authorized	Shares Issued and Outstanding	Original Issue Price per Share	Aggregate Liquidation Preference
Series A	6/1/2016	2,735,801	2,735,801	$ 6.25	$ 17,107
Series B	5/24/2017 and 7/25/2018	6,048,234	6,048,234	$6.52 – 6.60	39,732
Series C	6/28/2019	4,884,264	4,884,264	$ 15.39	75,152
Series D	1/20/2022	11,269,306	9,799,397	$ 12.76	125,000
Series E	4/6/2023	18,578,532	18,578,532	$ 8.07	149,999
		43,516,137	42,046,228		$ 406,990

* *The issuance date for Series A, B, C, and D represents the original issuance date of the respective preference shares of Saluda AU that were subsequently exchanged for redeemable convertible preferred stock of the Company as a part of the*

Redomiciliation. The issuance date for Series E represents the issuance date of the respective redeemable convertible preferred stock of the Company subsequent to the Redomiciliation.

During the year ended June 30, 2023, the Company raised capital of $143.4 million (net of issuance costs of $6.6 million) through the sale of 18,578,532 shares of Series E redeemable convertible preferred stock (the "Series E Preferred Stock") at $8.07 per share.

The various rights and preferences of the redeemable convertible preferred stock are as follows:

Voting Rights—On any matter presented to shareholders, preferred shareholders are entitled to the number of votes equal to the number of shares of common shares into which these preferred shares could be converted.

Dividends—At a date determined by the Board, each preferred stockholder has a right to receive a dividend of 8% of the original issue price of the relevant preferred share subject to the Board resolving to pay a distribution and the Company having sufficient funds and reserves to pay such distribution as at distribution entitlement date and distribution payment date.

The distribution of preferred shares is non-cumulative in nature. The Company cannot pay distribution to a particular series of preferred shareholders or common shareholders in respect of a period for which no distribution is paid to the holders of preferred shares which ranks in priority to them or if any unpaid distribution remains outstanding (unless waived by such series' preferred shareholders). Through June 30, 2024, there were no dividends declared, paid, or set aside.

Conversion—Series A, B, C, D, and E redeemable convertible preferred stock can be converted into fully paid common shares at the holders discretion. The number of common shares received upon conversion is determined by dividing the original issuance price by the conversion price, then multiplying by the number of preferred shares being converted. The initial conversion price per share for Series A, Series B, and Series E redeemable convertible preferred stock is equal to the respective original issuance prices per share. The initial conversion price per share for Series C redeemable convertible preferred stock is $12.64. The initial conversion price per share for Series D redeemable convertible preferred stock is $11.59. The respective initial conversion prices per share for all series of redeemable convertible preferred stock are subject to adjustment in the event of share splits and consolidations, dividends and distributions, subdivisions or similar distributions, and other capital reconstructions.

All outstanding preferred shares will automatically convert into common shares under certain conditions. This includes a Qualifying IPO, characterized as an IPO that is firmly underwritten and brings aggregate gross proceeds to the Company of at least $75 million, excluding underwriting discounts, commissions, and fees. For Series E Preferred Stock, conversion is contingent upon obtaining approval from the requisite Series E holders. Additionally, an affirmative vote for conversion by the respective class of preferred shareholders triggers the mandatory conversion.

Liquidation Rights—In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series E, D, and C redeemable convertible preferred stock then outstanding shall be entitled to be paid out of the assets of the Company available for distribution to its stockholders or, in the case of a Deemed Liquidation Event defined as a sale of 50% or more of the share capital of the Company or a sale of substantially all of the Company's assets, out of the consideration payable to stockholders in such Deemed Liquidation Event or available proceeds, before any payment shall be made to the holders of Series B redeemable convertible preferred stock, Series A redeemable convertible preferred stock, and common stock. Following payment to the holders of Series E, D, and C redeemable convertible preferred stock, the remaining assets of the Company available for distribution to stockholders or, in the case of a Deemed Liquidation Event, the remaining consideration payable to stockholders, will be distributed first to holders of Series B redeemable convertible preferred stock, then to holders of Series A redeemable convertible preferred stock, and lastly to holders of common stock.

Redemption—In the event of insolvency or a Deemed Liquidation Event, each holder of redeemable convertible preferred stock (with written consent of the preferred shareholders of that particular class) shall have the option to require the Company to purchase any or all its shares at redemption price. Redemption price is defined as the original issuance price plus any declared but unpaid distribution.

Note 11. Stockholders' Equity

Certificate of Incorporation

As a result of the Redomiciliation, and in accordance with the Company's Amended and Restated Certificate of Incorporation dated April 5, 2023, the Company is authorized to issue two classes of stock, common stock and redeemable convertible preferred stock. The Company shall have authority to issue 74,982,965 shares of common stock with par value of $0.0001 per share and 43,516,137 shares of redeemable convertible preferred stock with par value of $0.0001 per share.

Common Stock

Each share of common stock holds economic rights and entitles its holder to one vote per share on all matters submitted to a vote of the stockholders. The shares authorized are available to issue for purposes of satisfying conversion of redeemable convertible preferred stock, the exercise of common stock options, and for purposes of any future transactions.

The Company had reserved shares of common stock for issuance as of June 30, 2024 as follows:

	As of June 30, 2024
Common stock equivalent of redeemable convertible preferred stock issued and outstanding	43,668,579
Options issued and outstanding	11,531,685
Additional shares available for grant under the equity plan	728,484
Common stock equivalent of warrants outstanding and exercisable upon an IPO	1,617,547
Total	57,546,295

Note 12. Net Loss Per Share

Basic earnings per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding, net of the weighted-average unvested restricted stock subject to repurchase by the Company, if any, during the period. Diluted earnings per share is calculated by dividing the net loss by the weighted-average number of common shares outstanding, adjusted for the effects of potentially dilutive common stock, which are comprised of stock options and stock warrants, using the treasury-stock method, and redeemable convertible preferred stock, using the if-converted method. Because the Company reported net losses for the period presented, all potentially dilutive common stock is antidilutive for this period. The redeemable convertible preferred stock are considered participating securities; however, they were excluded from the computation of basic loss per share in the periods of net loss as there is no contractual obligation or terms for the holders to share in the losses of the Company.

The following table presents the number of anti-dilutive shares excluded from the calculation of diluted net loss per share as of June 30, 2023 and 2024:

	As of June 30, 2023	As of June 30, 2024
Common stock equivalent of redeemable convertible preferred stock issued and outstanding	43,668,579	43,668,579
Stock options outstanding	9,513,198	11,531,685
Common stock equivalent of warrants outstanding and exercisable upon an IPO	1,617,547	1,617,547
Total	54,799,324	56,817,811

Note 13. Stock-Based Compensation

2023 Incentive Award Plan

During the year ended June 30, 2023, the Company adopted the 2023 Incentive Award Plan pursuant to which the Board of Directors may grant stock options, stock appreciation rights, restricted stock, restricted stock units, other awards to individuals who are then employees, officers, non-employee directors or consultants of the Company. Stock options must be granted with an exercise price equal to the stock's fair market value at the date of grant. Stock options generally have 10-year terms and service based vesting conditions over a three or four-year period starting from the date specified in each agreement. As of June 30, 2024, the Company is authorized to issue up to 6,060,998 shares under the 2023 Incentive Award Plan.

As part of the Redomiciliation, the Company adjusted the terms of all previously issued stock options outstanding under the Saluda Medical Pty Ltd Employee Option Plan ("Saluda AU Plan"). Following this adjustment, upon vesting, option holders under the Saluda AU Plan are now entitled to acquire one common share of the Company rather than one ordinary share of Saluda AU. The exercise price for these options was adjusted based on the Australian Dollar to U.S. Dollar exchange rate effective on their respective original issuance dates. All other conditions and terms associated with these outstanding options remain unaffected. On the date of the

Redomiciliation, the Company had 7,105,042 options outstanding under the Saluda AU Plan. Any options forfeited under the Saluda AU Plan rollover to the 2023 Incentive Award Plan.

The following table summarizes stock option activity under the Company's stock-based compensation plans during the years ended June 30, 2023 and 2024, respectively (in thousands, except option and share data):

	Number of options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
Outstanding as of June 30, 2023	9,513,198	$ 5.74	7.50	$ 948
Options exercised	(7,262)	3.64		
Options granted	3,015,250	3.11		
Options forfeited or cancelled	(989,501)	4.73		
Outstanding as of June 30, 2024	11,531,685	$ 5.14	7.30	$ 3,639
Options vested and exercisable as of June 30, 2024	6,355,515	$ 6.79	5.70	$ 1,027

The weighted-average grant-date fair value of options granted during the years ended June 30, 2023 and 2024 was $1.55 and $1.93 per share, respectively. The total fair value of options vested during the years ended June 30, 2023 and 2024 was $5.7 million and $5.5 million, respectively, based on the grant date fair value.

The aggregate intrinsic values of options outstanding, exercisable, vested and expected to vest were calculated as the difference between the exercise price of the options and the determined fair value of the Company's common stock as of June 30, 2024.

The aggregate intrinsic value of stock options exercised in the years ended June 30, 2023 and 2024 was less than $0.1 million.

The Company records stock-based compensation of stock options granted by estimating the fair value of stock-based awards using the Black-Scholes option pricing model. The fair value is amortized on a straight-line basis over the requisite service period of the awards. The following assumptions were used in estimating the fair value:

	Year Ended June 30, 2023	Year Ended June 30, 2024
Stock Options:		
Expected term (in years)	5.00 – 6.58	5.00 – 6.08
Expected volatility	56.15 – 57.82%	56.30 – 57.76%
Risk-free interest rate	3.42 – 4.34%	3.81 – 4.65%
Dividend yield	—	—
Fair value of common stock	$2.24 – 4.03	$2.62 – 3.54

A summary of stock-based compensation expense by line item in consolidated statements of operations and comprehensive loss is as follows (in thousands):

	Year Ended June 30, 2023	Year Ended June 30, 2024
Selling, general and administrative	$ 5,038	$ 2,966
Research and development	1,223	770
Total stock-based compensation	$ 6,261	$ 3,736

As of June 30, 2023 and 2024, the total unrecognized compensation expense related to unvested options was $5.4 million and $6.4 million, respectively, which the Company expects to recognize over an estimated weighted-average period of 2.3 and 2.9 years, respectively.

Note 14. Income Tax

Income before income taxes was comprised of the following (in thousands):

	Year Ended June 30, 2023	Year Ended June 30, 2024
Domestic	$ (999)	$ (36,457)
Foreign	(90,551)	(61,097)
Total loss before income taxes	$ (91,550)	$ (97,554)

The provision for income taxes consisted of the following (in thousands):

	Year Ended June 30, 2023	Year Ended June 30, 2024
Current tax provision:		
Federal	$ 361	$ 10
State	101	37
Foreign	152	226
Total current income tax provision	$ 614	$ 273
Deferred:		
Federal	$ —	$ —
State	—	—
Foreign	—	—
Total deferred income tax provision	$ —	$ —
Total income tax provision	$ 614	$ 273

The following is a reconciliation of the federal tax calculated at the statutory rate to the actual income tax provision:

	Year Ended June 30, 2023		Year Ended June 30, 2024	
	(in thousands)	(as %)	(in thousands)	(as %)
Income tax expense at federal statutory rate	(19,226)	21.0%	(20,486)	21.0%
Research & development tax credit	(2,564)	2.8%	(3,337)	3.4%
Foreign tax rate differences	(3,412)	3.7%	(4,780)	4.9%
Nondeductible expenses	2,129	(2.3)%	2,536	(2.6)%
Change in valuation allowance	24,000	(26.2)%	26,730	(27.4)%
Other, net	(313)	0.3%	(390)	0.4%
Total	614	(0.7)%	273	(0.3)%

Deferred income taxes are provided for the effects of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes. Significant components of deferred tax assets and deferred tax liabilities consisted of the following (in thousands):

	As of June 30, 2023	As of June 30, 2024
Employment related accruals	4,747	5,385
Capitalized research	—	2,006
Other	3,946	4,930
Net operating loss carryovers	59,985	93,503
Research & development credit carryovers	3,112	6,982
Total gross deferred tax asset	71,790	112,806
Valuation allowance	(70,317)	(110,523)
Deferred tax assets	1,473	2,283
Other	(1,473)	(2,283)
Deferred tax liabilities	(1,473)	(2,283)
Net deferred income tax assets (liabilities)	—	—

In assessing the realization of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Based on the level of historical losses and projections of losses in future periods, the Company provided a valuation allowance as of June 30, 2024 of $110.5 million.

As of June 30, 2024, the Company has federal and foreign operating loss carryforwards of approximately $21.5 million and $295.0 million respectively, that may be carried over indefinitely. As of June 30, 2024, the Company has federal and foreign tax credit carryforwards of $2.3 million and $4.7 million, respectively. The federal tax credit carryforwards expire between 2041 and 2043. The foreign tax credits may be carried forward indefinitely. Additionally, the Company has state net operating loss carryforwards of approximately $7.2 million and state credit carryforwards of approximately $0.2 million with various expiration periods.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2021.

There were no unrecognized tax benefits as of June 30, 2023 or June 30, 2024. The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. The Company makes adjustments to these reserves when facts and circumstances change, such as the closing of tax audits or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made.

U.S. income tax has not been recognized on the excess of the amount for financial reporting over the tax basis of investments in foreign subsidiaries that is indefinitely reinvested outside the United States. This amount becomes taxable upon a repatriation of assets from the subsidiary or a sale or liquidation of the subsidiary. Determination of the amount of any unrecognized deferred income tax liability on this temporary difference is not practicable because of the complexities of the hypothetical calculation.

Note 15. Commitments and Contingencies

Litigation

From time to time, the Company may become involved in various legal claims and litigation in the ordinary course of its business. Management believes that any liability of the Company that may arise out of or with respect to these matters, both individually and in the aggregate, will not materially adversely affect the financial position, results of operations, or cash flows of the Company.

Note 16. Subsequent Events

The Company has evaluated its consolidated financial statements for subsequent events through September 4, 2024, the date the consolidated financial statements were issued.

On August 14, 2024, the Company's Board of Directors approved a repricing of certain outstanding and unexercised stock options held by employees and directors of the Company (the "Repricing"). The Repricing was effective as of August 14, 2024, whereby 4,529,689 options were repriced on a one-for-one basis with the exercise price of each option being lowered to $3.58 per share (the determined fair market value per share on the date of the Repricing). The new exercise price of $3.58 per share will go into effect two years after the board approval of the Repricing (i.e. August 14, 2026), or earlier in the event of a change of control of the Company or qualifying termination of the option holder's employment or service to the Company. Prior to the new exercise price becoming effective, holders of the underlying options are able to exercise the awards at the original, higher exercise price per share that was in effect prior to the Repricing. The vesting and all other provisions of the options impacted by the Repricing will remain the same.