

Granted	100,900	15.39
Unvested at September 30, 2015	<u>100,900</u>	<u>\$ 15.39</u>

Share-Based Compensation

The fair value of stock options granted to employees is estimated on the date of grant using the Black-Scholes-Merton option valuation model. This share-based compensation expense valuation model requires the Company to make assumptions and judgments regarding the variables used in the calculation. These variables include the expected term (weighted average period of time that the options granted are expected to be outstanding), the expected volatility of the Company's stock, expected risk-free interest rate, expected dividends, and the estimated forfeitures of unvested stock options. To the extent actual results differ from the estimates, the difference will be recorded as a cumulative adjustment in the period estimates are revised. The Company uses the simplified calculation of expected term, as the Company does not have sufficient historical data to use any other method to estimate expected term. Expected volatility is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. The expected risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods

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corresponding with the expected life of the option. Expected forfeitures are based on the Company's historical experience. Share-based compensation expense is recorded net of estimated forfeitures on a straight-line basis over the requisite service period.

The fair value of stock options granted to non-employees, including consultants, is initially measured upon the date of grant and remeasured over the vesting period using the same methodology described above. These non-employees provide service to the Company on an ongoing basis, therefore, the performance commitment for each non-employee grant is not considered probable until the award is earned over time. The expected term for non-employee grants is the contractual term and share-based compensation expense is recognized on a straight-line basis over this term. Share-based compensation expense related to non-employees has not been material for any of the periods presented.

Effective August 31, 2015, the Company modified all of its nonstatutory stock option grants to extend the exercise term for terminated employees who have completed two years of service. In the event of a termination, the modified expiration date will be the earlier of (i) three years from termination or (ii) one year following an initial public offering, if in each case, the date of termination occurs between August 31, 2015 and the nine-month anniversary of the initial public offering. In all cases, the grants remain subject to earlier expiration in accordance with their original terms. During the nine months ended September 30, 2015, share-based compensation expense includes a one time charge of \$2.6 million related to the vested portion of the impacted options, as a result of the modification. The Company will incur an additional \$9.7 million of share-based compensation expense over the remaining vesting periods of the impacted options.

The fair value of stock options was estimated using the following weighted-average assumptions:

	Year Ended December 31,			Nine Months Ended September 30,	
	2012	2013	2014	2014	2015
				(Unaudited)	
Fair value of common stock	\$1.60-\$2.80	\$2.80-\$5.26	\$7.25-\$10.06	\$7.25-\$9.11	\$10.06-\$15.39
Dividend yield	—%	—%	—%	—%	—%
Risk-free interest rate	0.96%	1.55%	1.85%	1.87%	1.73%
Expected volatility	44.34%	46.47%	46.95%	45.68%	47.91%
Expected term (years)	6.05	6.09	6.06	6.08	6.06

The following table summarizes the effects of share-based compensation on the Company's consolidated statements of operations (in thousands):

	Year Ended December 31,			Nine Months Ended September 30,	
	2012	2013	2014	2014	2015
				(Unaudited)	
Product development	\$3,984	\$ 8,820	\$24,758	\$ 16,907	\$33,287