INVIVO THERAPEUTICS HOLDINGS CORP.
Form 424B3
November 08, 2018

Filed pursuant to Rule 424(b)(3)
Registration Statement Nos. 333 224424 and 333 225768

PROSPECTUS SUPPLEMENT NO. 3

(TO PROSPECTUS DATED JUNE 20, 2018)

INVIVO THERAPEUTICS HOLDINGS CORP.

388,403 shares of Common Stock and

388,403 Warrants to purchase shares of Common Stock

and

6,242,811 Pre-Funded Warrants to purchase shares of Common Stock and

6,242,811 Warrants to purchase shares of Common Stock

This prospectus supplement No. 3 supplements and amends the prospectus dated June 20, 2018, as supplemented by prospectus supplement No.1, dated September 28, 2018, and prospectus supplement No. 2, dated October 5, 2018, related to the sale or other disposition from time to time of 388,403 shares of common stock, par value $0.00001 per share (the “Common Stock”), of InVivo Therapeutics Holdings Corp., a Nevada corporation (the “Company,” “we,” “us” or “our”), together with up to 388,403 warrants to purchase shares of Common Stock, and 6,242,811 pre-funded warrants to purchase shares of Common Stock together with 6,242,811 warrants to purchase shares of Common Stock, issued to Ladenburg Thalmann & Co. Inc., the underwriter named in the prospectus, also referred to as LTCO, pursuant to an underwriting agreement dated June 21, 2018 that we entered into with LTCO.

This prospectus supplement should be read in conjunction with the prospectus dated June 20, 2018, which is to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the prospectus except to the extent that the information in this prospectus supplement supersedes the information contained in the prospectus. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus, including any amendments or supplements to it.

Our common stock is quoted on The Nasdaq Capital Market under the symbol “NVIV.” On November 7, 2018, the last reported sale price of our common stock on The Nasdaq Capital Market was $2.05 per share.

This prospectus supplement incorporates into our prospectus the information contained in our Quarterly Report on Form 10 Q for the quarter ended September 30, 2018 filed with the Securities and Exchange Commission on November 8, 2018 and attached hereto.

Investing in our common stock involves risks. See “Risk Factors” beginning on page 10 of the prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the prospectus to which it relates are truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 8, 2018.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 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: 001-37350

InVivo Therapeutics Holdings Corp.

(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	36-4528166 (I.R.S. Employer Identification Number)
One Kendall Square, Suite B14402 Cambridge, MA (Address of principal executive offices)	02139 (Zip code)

(617) 863-5500

(Registrant's telephone number, including area code)

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 if any, every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	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 November 1, 2018, 9,306,255 shares of the registrant's common stock, $0.00001 par value, were issued and outstanding.

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INVIVO THERAPEUTICS HOLDINGS CORP.

Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2018

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PART I — FINANCIAL INFORMATION

SPECIAL NOTE

All share number and share prices presented in this Quarterly Report on Form 10-Q have been adjusted to reflect the 1-for-25 reverse stock split of InVivo Therapeutics Holdings Corp.'s common stock effected on April 16, 2018.

Item 1.Financial Statements.

InVivo Therapeutics Holdings Corp.

Consolidated Balance Sheets

(In thousands, except share and per-share data)

(Unaudited)

	As of September 30, 2018	December 31, 2017
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 19,707	$ 12,910
Restricted cash	4	361
Prepaid expenses and other current assets	637	535
Total current assets	20,348	13,806
Property, equipment and leasehold improvements, net	112	157
Restricted cash	90	—
Other assets	926	82
Total assets	$ 21,476	$ 14,045
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 1,279	$ 988
Loan payable, current portion	216	452
Derivative warrant liability	—	4
Deferred rent, current portion	—	30

Accrued expenses	1,443	1,638
Total current liabilities	2,938	3,112
Loan payable, net of current portion	—	400
Deferred rent, net of current portion	—	367
Other liabilities	56	56
Total liabilities	2,994	3,935
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock, $0.00001 par value, authorized 25,000,000 shares; 8,506,946 shares issued and outstanding at September 30, 2018; 1,370,992 shares issued and outstanding at December 31, 2017	1	1
Additional paid-in capital	223,286	194,016
Accumulated deficit	(204,805)	(183,907)
Total stockholders' equity	18,482	10,110
Total liabilities and stockholders' equity	$ 21,476	$ 14,045

See notes to the unaudited consolidated financial statements.

(Reflects 1-for-25 reverse stock split effective April 16, 2018)

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InVivo Therapeutics Holdings Corp.

Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share and per-share data)

(Unaudited)

	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Operating expenses:				
Research and development	$ 928	$ 2,928	$ 3,352	$ 9,522
General and administrative	1,185	3,388	6,405	10,389
Total operating expenses	2,113	6,316	9,757	19,911
Operating loss	(2,113)	(6,316)	(9,757)	(19,911)
Other income (expense):				
Interest income / (expense), net	71	25	122	94
Other income / (expense), net	834	—	902	—
Derivatives gain (loss)	(1,967)	(3,059)	(12,165)	(2,264)
Other income (expense), net	(1,062)	(3,034)	(11,141)	(2,170)
Net loss	$ (3,175)	$ (9,350)	$ (20,898)	$ (22,081)
Net loss per share, basic and diluted	$ (0.42)	$ (6.99)	$ (5.81)	$ (16.98)
Weighted average number of common shares outstanding, basic and diluted	7,562,807	1,337,800	3,597,460	1,300,648
Other comprehensive loss:				
Net loss	(3,175)	(9,350)	(20,898)	(22,081)
Other comprehensive loss:				
Unrealized gain (loss) on marketable securities	—	—	—	—
Comprehensive loss	$ (3,175)	$ (9,350)	(20,898)	$ (22,081)

See notes to the unaudited consolidated financial statements.

(Reflects 1-for-25 reverse stock split effective April 16, 2018)

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InVivo Therapeutics Holdings Corp.

Consolidated Statements of Changes in Stockholders’ Equity

(In thousands, except share and per-share data)

(Unaudited)

	Three-Month Period Ended September 30, 2018				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders’
	Shares	Amount	Capital	Deficit	Equity
Balance as of June 30, 2018	4,077,667	$ 1	$ 199,720	$ (201,630)	$ (1,909)
Share-based compensation expense	—	—	85		85
Fair value of derivative warrant liability reclassified to additional paid-in capital	—	—	23,436		23,436
Issuance of common stock upon vesting of restricted stock units	1,250	—	—		—
Issuance of common stock upon exercise of warrants	4,427,084	—	44		44
Issuance of common stock under ESPP	945	—	1		1
Net loss	—	—	—	(3,175)	(3,175)
Balance at September 30, 2018	8,506,946	$ 1	$ 223,286	$ (204,805)	$ 18,482

	Nine-Month Period Ended September 30, 2018				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders’
	Shares	Amount	Capital	Deficit	Equity
Balance as of December 31, 2017	1,370,992	$ 1	$ 194,016	$ (183,907)	$ 10,110
Share-based compensation expense	—	—	541		541
Fair value of derivative warrant liability reclassified to additional paid-in capital	—	—	25,326		25,326

Issuance of common stock upon vesting of restricted stock units	1,250	—	—		—
Issuance of common stock upon exercise of warrants	5,478,002	—	55		55
Issuance of common stock under ESPP	1,133	—	4		4
Fractional shares issued due to reverse stock split	2,733	—	—		—
Issuance of common stock to 401(k) plan	440	—	6		6
Issuance of common stock in public offering	1,652,396	—	3,338		3,338
Net loss	—	—	—	(20,898)	(20,898)
Balance at September 30, 2018	8,506,946	$ 1	$ 223,286	$ (204,805)	$ 18,482

See notes to the unaudited consolidated financial statements.

(Reflects 1-for-25 reverse stock split effective April 16, 2018)

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InVivo Therapeutics Holdings Corp.

Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except share and per-share data)

(Unaudited)

	Three-Month Period Ended September 30, 2017				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance as of June 30, 2017	1,287,007	$ 1	$ 188,862	$ (169,893)	$ 18,970
Share-based compensation expense	—	—	1,031		1,031
Issuance of common stock on warrant exchange	80,857	—	3,537		3,537
Issuance of common stock under ESPP	391	—	22		22
Issuance of common stock to 401(k) plan	1,129	—	41		41
Net loss	—	—	—	(9,350)	(9,350)
Balance at September 30, 2017	1,369,384	$ 1	$ 193,493	$ (179,243)	$ 14,251

	Nine-Month Period Ended September 30, 2017				
	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance as of December 31, 2016	1,281,763	$ 1	$ 185,955	$ (157,007)	$ 28,949
Cumulative adjustment on adoption of ASU 2016-09	—	—	155	(155)	—
Share-based compensation expense	—	—	3,614		3,614
Issuance of common stock on warrant exchange	80,857	—	3,537		3,537
Issuance of common stock for services	14	—	—		—
Issuance of common stock under ESPP	710	—	51		51
Issuance of common stock upon exercise of stock options	3,576	—	26		26
	2,464	—	155		155

Issuance of common stock to 401(k) plan								
Net loss	—		—		—		(22,081)	(22,081)
Balance at September 30, 2017	1,369,384	$	1	$	193,493	$	(179,243)	$ 14,251

See notes to the unaudited consolidated financial statements.

(Reflects 1-for-25 reverse stock split effective April 16, 2018)

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InVivo Therapeutics Holdings Corp.

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended	
	2018	2017
Cash flows from operating activities:		
Net loss	$ (20,898)	$ (22,081)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	75	387
Loss on impairment of fixed assets	48	—
Derivatives loss	12,165	2,264
Non-cash interest expense	2	2
Common stock issued to 401(k) plan	6	154
Gain on lease assignment	(603)	—
Share-based compensation expense	541	3,614
Non-cash investment (income) expense, net	—	(2)
Changes in operating assets and liabilities:		
Prepaid expenses	(101)	(24)
Other assets	(860)	6
Accounts payable	291	259
Accrued expenses and other liabilities	9	(161)
Net cash used in operating activities	(9,325)	(15,582)
Cash flows from investing activities:		
Purchases of marketable securities	—	(8,256)
Sales of marketable securities	—	19,100
Purchases of property and equipment	(65)	(54)
Net cash (used in) provided by investing activities	(65)	10,790
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	26
Proceeds from issuance of stock under ESPP	4	51
Proceeds from exercise of warrants	55	—
Repayment of loan payable	(636)	(315)
Repurchase of warrants	(14)	—
Proceeds from issuance of common stock and warrants, net of commissions and issuance costs	16,511	—

Net cash (used in) provided by financing activities	15,920	(238)
Increase (decrease) in cash and cash equivalents and restricted cash	6,530	(5,030)
Cash, cash equivalents and restricted cash at beginning of period	13,271	21,825
Cash, cash equivalents and restricted cash at end of period	$ 19,801	$ 16,795
Supplemental disclosure of cash flow information and non-cash investing and financing activities:		
Cash paid for interest	$ 35	$ 56
Non-cash issuance of common stock for warrants	$ 287	$ 3,537
Reclassification of derivative warrant liability to additional paid-in capital	$ 25,326	$ —

See notes to the unaudited consolidated financial statements.

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InVivo Therapeutics Holdings Corp.

Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

1.NATURE OF OPERATIONS AND GOING CONCERN, BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

Business

InVivo Therapeutics Holdings Corp. (the "Company") is a pioneering biomaterials and biotechnology company with a focus on the treatment of spinal cord injuries ("SCIs"). The Company's Neuro-Spinal Scaffold™ implant is a bioresorbable polymer scaffold that is designed for implantation at the site of injury within the spinal cord to treat SCI. The proprietary technologies incorporate intellectual property that is licensed under an exclusive, worldwide license from Boston Children's Hospital and the Massachusetts Institute of Technology, as well as intellectual property that has been developed internally in collaboration with its advisors and partners.

Since its inception, the Company has devoted substantially all of its efforts to business planning, research and development, recruiting management and technical staff, acquiring operating assets, and raising capital. The Company has historically financed its operations primarily through the sale of equity-related securities. At September 30, 2018, the Company had consolidated cash and cash equivalents of $19.7 million. The Company has not achieved profitability and may not be able to realize sufficient revenue to achieve or sustain profitability in the future. The Company does not expect to be profitable in the next several years, but rather expects to incur additional operating losses. The financing closed in June 2018 (see Note 9) provided necessary funding to fund operations for at least the next twelve months. The Company expects that it will need additional capital resources in order to sustain its product development efforts, for acquisition of technologies and intellectual property rights, for preclinical and clinical testing of its anticipated products, pursuit of regulatory approvals, acquisition of capital equipment, laboratory and office facilities, establishment of production capabilities, for selling, general and administrative expenses, and other working capital requirements in the future which it may raise through a combination of equity offerings, debt financings, other third party funding, marketing and distribution arrangements and other collaborations, strategic alliances and license arrangements.

Reverse Stock Split

On April 16, 2018, the Company effected a reverse stock split of its common stock, par value $0.00001 per share, at a ratio of 1-for-25. As a result of the reverse stock split, (i) every 25 shares of the issued and outstanding common stock were automatically converted into one newly issued and outstanding share of common stock, without any change in the par value per share; (ii) shares of common stock underlying outstanding stock options and other equity instruments convertible into common stock were proportionately reduced and the respective exercise prices, if applicable, were proportionately increased in accordance with the terms of the agreements governing such securities, and (iii) the number of authorized shares of common stock outstanding was proportionally decreased.

All of the Company's historical share and per share information related to issued and outstanding common stock and outstanding options and warrants exercisable for common stock in these financial statements have been adjusted, on a retroactive basis, to reflect this 1-for-25 reverse stock split.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("GAAP") consistent with those applied in, and should be read in conjunction with, the Company's audited financial statements and related footnotes for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K as filed with the United States Securities and Exchange Commission ("SEC") on March 12, 2018. The unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the Company's financial position as of September 30, 2018 and its results of operations and cash flows for the interim period presented, and are not necessarily indicative of results for subsequent interim periods or for the full year. The interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements, as allowed by the relevant SEC

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InVivo Therapeutics Holdings Corp.

Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

(Continued)

rules and regulations; however, the Company believes that its disclosures are adequate to ensure that the information presented is not misleading.

Recently Adopted Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), to provide updated guidance on revenue recognition. ASU 2014-09 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross Versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which relates to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration, and the presentation of sales and other similar taxes collected from customers. Collectively, these standards are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within each annual reporting period. Currently, this guidance is not applicable to the Company as the Company does not generate revenue. However, the Company will adopt and evaluate the impact of adopting these standards on its consolidated financial statements when the Company begins to generate revenue.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 is intended to improve the recognition and measurement of financial instruments by; requiring equity investments to be measured at fair value with changes in fair value recognized in net income: requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured and amortized at cost on the balance sheet; and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2017. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. In February 2018, the FASB issued ASU No. 2018-03 which includes technical corrections and improvements to clarify the guidance in ASU No. 2016-01. The Company adopted ASU 2016-01 on January 1, 2018 and it did not have any impact on its accounting for equity investments, fair value disclosures or other disclosure requirements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU No. 2016-15"), which clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination and insurance settlement proceeds. The Company adopted ASU 2016-15 on January 1, 2018, and it did not result in any changes to the presentation of amounts shown on the Company's consolidated statements of cash flows for all periods presented.

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InVivo Therapeutics Holdings Corp.

Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

(Continued)

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (A Consensus of the FASB Emerging Issues Task Force) ("ASU No 2016-18"). The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted ASU No. 2016-18 in the first quarter of 2018 and applied the guidance retrospectively to the prior period consolidated statement of cash flows. The following table provides a reconciliation of cash, cash equivalents, and restricted cash within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

(In thousands)	September 30, 2018	September 30, 2017
Cash and cash equivalents	$ 19,707	$ 16,434
Restricted cash included in current assets	4	361
Restricted cash included in other non-current assets	90	—
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 19,801	$ 16,795

In May 2017, the FASB issued ASU No. 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under this new guidance, modification accounting is required if the fair value, vesting conditions, or classification of the award changes as a result of the change in terms or conditions. ASU 2017-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within each annual reporting period. The Company adopted ASU 2017-09 on January 1, 2018 and it did not have a material effect on the Company's financial position, results of operations or disclosures.

In December 2017, the SEC issued Staff Accounting Bulletin 118 ("SAB 118") to address the application of U.S. GAAP in situations in which a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act (the "Tax Reform Act") which was signed into law on December 22, 2017. In March 2018, the FASB issued ASU 2018-05, which amended ASC 740-Income Taxes, to incorporate the requirements of SAB 118. The Company recognized the provisional tax impacts of the Tax Reform Act in the fourth quarter 2017. During first quarter 2018, the Company did not receive any additional information regarding these provisional calculations. As a result, the Company continues to anticipate finalizing the Company's analysis in connection with the completion of its tax return for 2017 to be filed in 2018.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance leases or operating leases, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within each annual reporting period. The Company is currently gathering information and evaluating the impact of this guidance on our consolidated financial statements and related disclosures.

In July 2017, the FASB issued ASU No. 2017-11, Part I. Accounting for Certain Financial Instruments with Down Round Features and Part II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception ("ASU 2017-11"). Part I of this guidance applies to entities that issue financial instruments such as warrants, convertible debt or convertible preferred stock that contain down round features. Part II of this guidance replaces the indefinite deferrals for certain mandatorily redeemable noncontrolling interests and mandatorily redeemable financial instruments of nonpublic entities. ASU 2017-11 is effective for annual reporting

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periods beginning after December 15, 2018, including interim reporting periods within each annual reporting period. The Company has concluded that the adoption of ASU 2017-11 will not have a material impact on the financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This update relates to the impacts of the tax legislation commonly referred to as the Tax Reform Act. The guidance permits the reclassification of certain income tax effects of the Tax Reform Act from other comprehensive income to retained earnings (stranded tax effects). The guidance also requires certain new disclosures. The guidance is effective for annual periods beginning after December 15, 2018, and interim periods within those reporting periods. Early adoption is permitted. Entities may adopt the guidance using one of two transition methods; retrospective to each period (or periods) in which the income tax effects of the Tax Reform Act related to the items remaining in other comprehensive income are recognized or at the beginning of the period of adoption. The Company is currently evaluating the impact that the guidance may have on its Consolidated Financial Statements.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule is effective on November 5, 2018. The Company adopted this release in the third quarter of 2018.

2.CASH AND CASH EQUIVALENTS

At September 30, 2018 and December 31, 2017, cash equivalents were comprised of money market funds and other short-term investments.

From time to time, the Company may have cash balances in financial institutions in excess of insurance limits. The Company has never experienced any losses related to these balances. The Company considers only those investments that are highly liquid, readily convertible to cash, and that mature within three months from date of purchase to be cash equivalents.

Cash and cash equivalents consisted of the following:

(In thousands)	September 30, 2018	December 31, 2017
Cash	$ (156)	$ 23
Money market funds	19,863	12,887
Total cash and cash equivalents	$ 19,707	$ 12,910

3.RESTRICTED CASH

Restricted cash as of September 30, 2018 and December 31, 2017 was $94 thousand and $361 thousand, respectively. Restricted cash as of September 30, 2018 included a $50 thousand security deposit related to the

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InVivo Therapeutics Holdings Corp.

Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

(Continued)

Company's credit card account, $4 thousand related to 401(k) reserve account and a $40 thousand standby letter of credit in favor of a landlord (see Note 6).

4. MARKETABLE SECURITIES

The Company invests its excess cash in fixed income instruments denominated and payable in U.S. dollars, including money market accounts, commercial paper, and corporate obligations, in accordance with the Company's investment policy that primarily seeks to maintain adequate liquidity and preserve capital.

As of September 30, 2018, and December 31, 2017, the Company had no marketable securities.

5.FAIR VALUES OF ASSETS AND LIABILITIES

The Company groups its assets and liabilities generally measured at fair value into three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 — Valuation is based on quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses valuation methods and assumptions that consider, among other factors, the fair value of the underlying stock, risk-free interest rate, volatility, expected life, and dividend rates in estimating fair value for the warrants considered to be derivative instruments (see Notes 11 and 12).

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	At September 30, 2018			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	$ 19,863	$ —	$ —	$ 19,863
Derivative warrant liability	$ —	$ —	$ —	$ —

	At December 31, 2017			
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	$ 12,887	$ —	$ —	$ 12,887
Derivative warrant liability	$ —	$ 4	$ —	$ 4

6.COMMITMENTS AND CONTINGENCIES

Leases

On November 30, 2011, the Company entered into a commercial lease for 26,342 square feet of office, laboratory, and manufacturing space in Cambridge, Massachusetts (as amended on September 17, 2012 and October 31, 2017,

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the “Cambridge Lease”). The term of the Cambridge Lease was six years and three months, with one five-year extension option. On August 21, 2017, the Company exercised its option for the five-year extension on the Cambridge Lease. The five-year renewal lease term was set to commence on November 1, 2018 and end on October 31, 2023. The terms of the Cambridge Lease required a standby letter of credit in the amount of $311 thousand.

On March 31, 2016, the Company entered into a short-term lease, to sub-lease 5,233 square feet of its facility (the “2016 Sublease”). The 2016 Sublease term was from April 1, 2016 through January 31, 2017. In connection with the 2016 Sublease, the Company received sublease income for the three and nine months ended September 30, 2017 of $26 thousand, which was recorded as an offset to rent expense.

On June 13, 2017, the Company entered into a new short-term lease, to sub-lease 5,233 square feet of its facility (the “Moderna Sublease”). The lease term was from July 1, 2017 through October 26, 2018. On June 19, 2017, the Company received a $55 thousand security deposit under the terms of the Moderna Sublease. In conjunction with the assignment of the Cambridge Lease on May 3, 2018 further described below, this security deposit was transferred to the third party that assumed the lease. In connection with Moderna Sublease, the Company did not record any sublease income for the three-month period ended September 30, 2018. In connection with the Moderna Sublease, the Company received sublease income of $112 thousand for the nine-month period ended September 30, 2018, which was recorded as an offset to rent expense.

On May 3, 2018, the Company assigned the Cambridge Lease to a third party who assumed all of the Company’s remaining rights and obligations under the Cambridge Lease including the Moderna Sublease. On the same date as the lease assignment, the Company entered into a sublease for 5,104 square feet of space, originally part of the Cambridge Lease, from the third party to which the Company assigned the Cambridge Lease. The sublease commenced on May 3, 2018 through October 31, 2023 and contains rent holiday and rent escalation clauses. In connection with the lease assignment and the sublease, the $311 thousand standby letter of credit was terminated, and a new standby letter of credit was established for $40 thousand. On November 1, 2018, the standby letter of credit will be increased to $60 thousand. The $55 thousand security deposit under the Moderna Sublease was transferred to the third party and $603 thousand of deferred rent was removed from the consolidated balance sheets as of June 30, 2018. The resulting gain was recorded within the consolidated statement of operations and comprehensive loss during the second quarter of 2018. The Company also wrote off certain furniture, fixtures and equipment (including laboratory equipment) and recorded an impairment charge of $48 thousand for the nine months ended September 30, 2018. The Company did not record any impairment charges for the three-month period ended September 30, 2018.

The Company recognizes rent expense on a straight-line basis over the term of the lease and records the difference between the amount charged to expense and the rent paid as prepaid rent or deferred rent liability. As of September 30, 2018, and December 31, 2017, the amount of prepaid rent was $108 thousand and $0, respectively. As of September 30, 2018, and December 31, 2017, the amount of deferred rent liability was $0 and $397 thousand, respectively.

Pursuant to the terms of the non-cancelable lease and sublease agreements in effect at September 30, 2018, the future minimum rent commitments are as follows (in thousands):

Year Ended December 31,		
Fourth Quarter 2018		—
2019		243
2020		375
2021		386
2022		398
Thereafter		339
Total	$	1,741

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InVivo Therapeutics Holdings Corp.

Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

(Continued)

Total rent expense for the three-month period ended September 30, 2018 was $107 thousand. Total rent expense for the three-month period ended September 30, 2017 was $269 thousand.

Total rent expense for the nine-month period ended September 30, 2018 was $746 thousand, and does not include the one-time gain on termination of the Cambridge Lease of $603 thousand that was recorded to the consolidated statement of operations and comprehensive loss during the second quarter of 2018. Total rent expense for the nine-month period ended September 30, 2017 was $828 thousand.

Compensation Commitment

The Company entered into a compensation arrangement with an executive during September 2016 which provided for a future cash payment by the Company to the executive based on the February 13, 2017 stock price of the executive's former employer. The award was earned over a period of one year. The expense related to the compensation arrangement was $87 thousand and $174 thousand for the three-month and nine-month periods ended September 30, 2017, respectively. As of September 30, 2018, there were no outstanding payments to the executive.

Litigation

Lawsuits with Former Employee

In November 2013, the Company filed a lawsuit against Francis Reynolds, its former Chairman, Chief Executive Officer and Chief Financial Officer, in Middlesex Superior Court, Middlesex County, Massachusetts (InVivo Therapeutics Holdings Corp. v. Reynolds, Civil Action No. 13-5004). The complaint alleges breaches of fiduciary duties, breach of contract, conversion, misappropriation of corporate assets, unjust enrichment, and corporate waste, and seeks monetary damages and an accounting. The lawsuit involves approximately $500 thousand worth of personal and/or exorbitant expenses that the Company alleges Mr. Reynolds inappropriately caused it to pay while he was serving as the Company's Chief Executive Officer, Chief Financial Officer, President, and Chairman of the Company's Board of Directors. On December 6, 2013, Mr. Reynolds answered the complaint, and filed counterclaims against the Company and the Company's Board of Directors. The counterclaims allege two counts of breach of contract, two counts of breach of the covenant of good faith and fair-dealing, and tortious interference with a contract, and seek monetary damages and a declaratory judgment. The counterclaims related to Mr. Reynolds's allegations that the Company and the Company's Board of Directors interfered with the performance of his duties under the terms of his employment agreement, and that Mr. Reynolds was entitled to additional shares upon the exercise of certain stock options that he did not receive. On January 9, 2014, the Company, along with the directors named in the counterclaims, filed the Company's answer denying that Mr. Reynolds is entitled to any relief. The parties have completed discovery. On March 3, 2017, the counterclaim defendants filed a motion for summary judgement on all counterclaims asserted by Mr. Reynolds. On October 18, 2017, the Court allowed the motion for summary judgment in substantial part, and denied it in part. The Court, citing disputed issues of fact, declined to dismiss the counterclaims for breach of contract, breach of implied covenant of good faith and fair dealing, and declaratory judgment concerning Mr. Reynolds' attempted exercise of certain stock options, which Mr. Reynolds claims is the equivalent of 47,864 shares of common stock, but dismissed all other claims asserted by Mr. Reynolds. In July 2018, the parties reported the case as settled to the Court.

Vendor Dispute

In July 2018, the Company entered into a settlement agreement with a former vendor under which the vendor agreed to pay the Company $1.2 million, of which $800 thousand was received in July 2018 and is included in other income on the statement of operations and other comprehensive loss. The remaining $400 thousand is owed to the Company by December 1, 2018.

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InVivo Therapeutics Holdings Corp.

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(Continued)

7. ACCRUED EXPENSES

Accrued expenses consisted of the following:

(In thousands)	September 30, 2018	December 31, 2017
Severance and restructuring	$ 917	$ 1,160
Bonus	238	62
Vacation	53	55
Payroll	40	79
Other accrued expenses	195	282
Total accrued expenses	$ 1,443	$ 1,638

8.LOAN PAYABLE

In October 2012, the Company entered into a loan agreement with the Massachusetts Development Finance Agency ("MassDev"). The loan agreement provided the Company with a $2.0 million line of credit from the Commonwealth of Massachusetts' Emerging Technology Fund, with $200 thousand designated to be used for working capital purposes and the remainder to be used for the purchase of capital equipment. The annual interest rate on the loan is fixed at 6.5% with interest-only payments for the first thirty months, commencing on November 1, 2012, and then equal installments of interest and principal over the next fifty-four months, until the final maturity of the loan in March 2019. Commencing on May 1, 2015, equal monthly payments of $41 thousand are due until loan maturity.

In May 2018, in order to obtain the consent of MassDev for facility changes, including the assignment of the Cambridge Lease, and the sale of certain assets, the Company paid down $300 thousand of principal on the MassDev loan. As of September 30, 2018, $216 thousand in principal payments will be due in the next twelve months. In October 2012, as part of the agreement, the Company issued MassDev a warrant for the purchase of 362 shares of the Company's common stock. The warrant has a seven-year term and is exercisable at $166 per share. The fair value of the warrant was determined to be $32 thousand and is being amortized through interest expense over the life of the note. Amortization expense was $1 thousand in each of the three-month periods ended September 30, 2018 and 2017 and $3 thousand in each of the nine-month periods ended September 30, 2018 and 2017. This amortization expense was included in interest expense in the Company’s consolidated statements of operations. The equipment line of credit is secured by substantially all the assets of the Company, excluding intellectual property. Interest expense related to this loan for the three-month periods ended September 30, 2018 and 2017 was $9 thousand and $17 thousand, respectively. Interest expense related to this loan for the nine-month periods ended September 30, 2018 and 2017 was $35 thousand, and $56 thousand respectively.

9.COMMON STOCK

In May 2018, the Company’s stockholders approved an amendment to the Company’s Articles of Incorporation to increase the number of shares of authorized common stock from 4,000,000 to 25,000,000 shares. As of September 30, 2018, and December 31, 2017, 8,506,946 and 1,370,992 shares were issued and outstanding respectively.

In June 2018, the Company closed an underwritten public offering of an aggregate of 1,378,400 Common Units, at an offering price of $2.00 each, each comprised of one share of the Company’s common stock, par value $0.00001 per share and one Series A warrant to purchase one share of common stock. The public offering also included 6,242,811 pre-funded units at an offering price of $1.99 each, each comprised of one pre-funded Series B Warrant, and one Series A warrant to purchase one share of common stock. Each Series A warrant has an exercise price of $2.00 per share, is exercisable immediately and expires five years from the date of issuance. Each Series B warrant has an exercise price of $0.01 per share, is exercisable immediately and will expire twenty years from the date of issuance (see Note 12). The net proceeds to the Company, after deducting the underwriting discounts and commissions and other offering expenses, were $13.5 million (see Note 12). In September 2018, the Company entered into an Amendment to Warrant Agency Agreement and Warrants (the “Ladenburg Warrant Amendment”) with Continental Stock Transfer & Trust Company (“Continental”) that amends the Warrant Agency Agreement, by and between the Company and Continental, as Warrant Agent, dated June 25, 2018, and the Series A Common Stock Purchase Warrant, and the Series B Pre-Funded Common Stock Purchase Warrant both dated June 25, 2018 (the Series A and Series B Warrant, collectively the “2018 Warrants”). The Ladenburg Warrant Amendment adds a provision to each of the warrants that allows the Company or a successor entity whose stock is not listed on a trading market to, in connection with a Fundamental Transaction (as such term is defined in the 2018 Warrants) that is not within the Company’s control, purchase the warrant from the holder, at the holder’s option, by paying the same form of consideration in the same proportion that is offered to the holders of the Company’s common stock in connection with the Fundamental Transaction, including cash, stock, any combination thereof and any choice of consideration thereof, in an amount equal to the Black-Sholes Value of the remaining unexercised portion of the Warrant on the consummation date of the Fundamental Transaction. The fair value of the amended 2018 Warrants was re-measured immediately prior to the date of the Ladenburg Warrant Amendment with changes in fair value recorded as a loss of $764 thousand in the Company’s consolidated statement of operations and $14.7 million was reclassified to equity. During the three months ended September 30, 2018, the Company issued an aggregate of 4,427,084 shares of common stock upon the exercise of Series B warrants for aggregate proceeds of $44 thousand. The Company reclassified $8.7 million from derivative warrant liability to additional paid-in capital and recorded a derivative loss of $1.2 million in connection with the warrant exercises. During the nine months ended September 30, 2018, the Company issued an aggregate of 5,478,002 shares of common stock upon the exercise of Series B warrants for aggregate proceeds of $55 thousand. The Company reclassified $10.6 million from derivative warrant liability to additional paid-in capital and recorded a derivative loss of $1.2 million in connection with the warrant exercises.

In January 2018, the Company entered into a purchase and a registration rights agreement with Lincoln Park Capital Fund, LLC (“Lincoln Park”), under which it has the right to sell up to $15 million, in shares of our common stock, $0.00001 par value per share, to Lincoln Park over a twenty-four-month period, subject to certain limitations and conditions set forth in the purchase agreement and registration rights agreement. On May 30, 2018 the Company’s stockholders approved to increase the issuance and sale by the Company to Lincoln Park, including the Company’s prior issuances and sales of shares of common stock to Lincoln Park since January 2018, of up to 1,200,000 shares of common stock. In accordance with the terms of the purchase agreement, at the time the Company signed the purchase agreement and the registration rights agreement, it issued 17,192 shares to Lincoln Park as consideration for its commitment to purchase shares of the Company’s common stock under the purchase agreement and recorded $627 thousand in deferred offering costs. As of September 30, 2018, these costs were reclassified to additional paid-in capital. During the three months ended September 30, 2018, the Company did not sell any shares to Lincoln Park. During the nine months ended September 30, 2018, the Company sold an aggregate of 256,804 shares to Lincoln Park, for aggregate proceeds of $3.1 million net of issuance costs.

In May 2018, the Company's Board of Directors approved to increase the number of shares of Common Stock reserved under the 401(k) Plan by 4,000 shares, bringing the aggregate number of shares of Common Stock eligible for distribution pursuant to the 401(k) Plan as of that date to 4,100 shares. In the second quarter of 2018 the Company revised its 401(k)-matching policy to move from share matching to cash-based matching. During the nine months ended September 30, 2018, the Company issued an aggregate of 440 shares of common stock with a fair value of $6 thousand to the Company's 401(k) plan as a matching contribution. The Company contributed $32 thousand in matching contributions to employee 401(k) accounts during the nine months ended September 30, 2018. During the year ended December 31, 2017, the Company issued an aggregate of 3,933 shares of common stock with a fair value of $183 thousand to the Company's 401(k) plan as a matching contribution.

During the nine months ended September 30, 2018, the Company issued an aggregate of 1,133 shares of common stock under the Company's Employee Stock Purchase Plan (the "ESPP") and received cash proceeds of approximately $4 thousand. During the year ended December 31, 2017, the Company issued an aggregate of 710 shares of common stock under the ESPP and received cash proceeds of $51 thousand.

During the year ended December 31, 2017, the Company issued an aggregate of 3,576 shares of common stock upon the exercise of stock options and received cash proceeds from such exercises of $26 thousand.

During the year ended December 31, 2017, the Company issued an aggregate of 139 shares of common stock upon the exercise of warrants and received cash proceeds from such exercises of $3 thousand.

During the year ended December 31, 2017, the Company issued an aggregate of 80,857 shares of common stock to certain holders of warrants, dated May 9, 2014, in exchange for their warrants to purchase an aggregate of 23,102 shares of common stock. The Company did not receive any cash proceeds from the warrant exchanges.

10.STOCK-BASED COMPENSATION

In 2007, the Company's Board of Directors adopted, and the Company's shareholders subsequently approved, the 2007 Employee, Director and Consultant Stock Plan (the "2007 Plan"). The 2007 Plan provided that the Company's Board of Directors (or committees and/or executive officers delegated by the Board of Directors) could grant incentive and nonqualified stock options to the Company's employees, officers, directors, consultants and advisors.

On October 26, 2010, the Company's Board of Directors adopted, and the Company's shareholders subsequently approved, the 2010 Equity Incentive Plan (as subsequently amended, the "2010 Plan"). The 2010 Plan provided for grants of incentive stock options to employees, and nonqualified stock options and restricted common stock to employees, consultants, and non-employee directors of the Company.

In April 2015, the Company's Board of Directors adopted, and the Company's shareholders subsequently approved, the 2015 Equity Incentive Plan (the "2015 Plan"). The 2015 Plan provides for grants of incentive stock options to employees, and nonqualified stock options, restricted common stock, restricted stock units, and stock appreciation rights to employees, consultants, and non-employee directors of the Company.

Upon approval of the 2015 Plan by the Company's shareholders on June 16, 2015, the 2010 Plan was terminated and no additional shares or share awards have been subsequently granted under the 2010 Plan. As of September 30, 2018, the total number of shares available to be issued under the 2015 Plan was 201,011 shares, consisting of 160,000 shares initially authorized under the 2015 Plan shares plus the 12,894 shares that remained available for grant under the 2010 Plan at the time of its termination adjusted for cumulative cancellations, forfeitures and issuances from the 2010 Plan and 2015 Plan.

Options issued under the 2007 Plan, 2010 Plan, and 2015 Plan (collectively, the "Plans") are exercisable for up to 10 years from the date of issuance.

In March 2015, the Company's Board of Directors adopted, and the Company's shareholders subsequently approved, the ESPP. The ESPP allows employees to buy company stock twice per year through after-tax payroll deductions at a discount from market. The Company's Board of Directors initially authorized 7,500 shares for issuance under the ESPP. Commencing on the first day of the year ended December 31, 2016 and on the first day of each year thereafter during the term of the ESPP, the number of shares of common stock reserved for issuance shall be increased by the lesser of (i) 1% of the Company's outstanding shares of common stock on such date, (ii) 2,000 shares, or (iii) a lesser amount determined by the Board of Directors. Under the terms of the ESPP, in no event shall the aggregate number of shares reserved for issuance during the term of the ESPP exceed 50,000 shares. As of December 31, 2017, there were 9,933 shares reserved for issuance under the ESPP.

In January 2018, 188 shares that were purchased in the offering period commencing on July 1, 2017 and ending on December 31, 2017 were issued under the ESPP. In July 2018, 945 shares that were purchased in the offering period commencing on January 1, 2018 and ending on June 30, 2018 were issued under the ESPP. As of September 30, 2018, $1 thousand of employee payroll deductions had been withheld since July 1, 2018, the commencement of the current offering period, and are included in accrued expenses on the balance sheet. The

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ESPP is considered a compensatory plan with the related compensation cost recognized over each six-month offering period. The compensation expense related to the ESPP for the three-month periods ended September 30, 2018 and 2017 was $1 thousand and $3 thousand, respectively, and is included in share-based compensation expense. The compensation expense related to the ESPP for the nine-month periods ended September 30, 2018 and 2017 was $1 thousand and $16 thousand, respectively, and is included in share-based compensation expense

Stock-based compensation

For the three-month periods ended September 30, 2018 and 2017, the Company recorded stock-based compensation expense of $85 thousand and $1 million, respectively, inclusive of the expense related to the ESPP. For the nine-month periods ended September 30, 2018 and 2017, the Company recorded stock-based compensation expense of $541 thousand and $3.6 million, respectively, inclusive of the expense related to the ESPP. Stock-based compensation expense for the nine-month period ended September 30, 2017 included $24 thousand of expense related to a stock option modification.

The Company adopted ASU 2016-09 on January 1, 2017. Prior to the adoption of this standard, the Company recognized stock-based compensation, net of estimated forfeitures, over the vesting period of the grant. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to recognize forfeitures as they occur. The Company continues to recognize stock-based compensation expense over the vesting period of the grant. The new forfeiture policy election was adopted using a modified retrospective approach with a cumulative effect adjustment of $155 thousand recorded to accumulated deficit on the balance sheet as of January 1, 2017.

The Company estimates the fair value of each option award on the date of grant using the Black-Scholes option pricing model. The expected term of options granted under the Plans, all of which qualify as “plain vanilla,” is based on the average of the contractual term (10 years) and the vesting period (generally, 48 months). For non-employee options, the expected term is the contractual term. The risk-free rate is based on the yield of a U.S. Treasury security with a term consistent with the option.

The assumptions used principally in determining the fair value of options granted were as follows:

	September 30, 2018	December 31, 2017
Risk-free interest rate	2.45%	1.69 - 2.36%
Expected dividend yield	0%	0%
Expected term (employee grants)	5.27 Years	6.22 Years
Expected volatility	96.07%	104%

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Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

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Stock options

A summary of option activity as of September 30, 2018 and changes for the nine-month period then ended are presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2017	134,770	$ 164.29		
Granted	3,024	$ 17.25		
Expired	(5,334)	$ 173.13		
Cancelled/Forfeited	(90,070)	$ 175.07		
Exercised	—	$ —		
Outstanding at September 30, 2018	42,390	$ 129.89	6.80	$ —
Vested at September 30, 2018	30,667	$ 153.41	6.08	$ —

The weighted average grant-date fair value of options granted during the nine months ended September 30, 2018 was $12.88 per share. The total fair value of options that vested in the three months ended September 30, 2018 was $96 thousand. The total fair value of options that vested in the nine months ended September 30, 2018 was $899 thousand. For the three-month period ended September 30, 2018, the Company recorded stock-based compensation expense of $58 thousand related to stock options. For the nine-month period ended September 30, 2018, the Company recorded stock-based compensation expense of $477 thousand related to stock options. As of September 30, 2018, total unrecognized compensation expense related to non-vested share-based option compensation arrangements amounted to $283 thousand and is estimated to be recognized over a period of 2.08 years.

Restricted Stock Units

The following table summarizes the restricted stock unit ("RSU") activity under the 2015 Plan during the nine-month period ended September 30, 2018:

	Number of Grants	Weighted-Average Grant Date Fair Value
Unvested balance at December 31, 2017	20,000	$ 25.70
Granted	—	—
Vested/Released	(1,250)	$ 31.25
Forfeited	(5,500)	$ 31.25
Unvested balance at September 30, 2018	13,250	$ 22.87

For the three-month period ended September 30, 2018, the Company recorded stock-based compensation expense of $26 thousand related to the time-based RSUs. For the nine-month period ended September 30, 2018, the Company recorded stock-based compensation expense of $61 thousand related to the time-based RSUs. As of September 30, 2018, total unrecognized compensation expense related to non-vested RSUs amounted to $249 thousand which the Company expects to recognize over a remaining weighted-average of 2.88 years.

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(Continued)

11. WARRANTS

The following table presents information about warrants to purchase common stock issued and outstanding at September 30, 2018:

Year Issued	Classification	Number of Warrants	Exercise Price	Date of Expiration
2012	Equity	243	$ 166.00	10/5/2019
2014	Equity	307	$ 11.75	5/9/2021
2016	Equity	85,869	$ 250.00	3/18/2021
2018	Equity	7,621,211	$ 2.00	6/25/2023
2018	Equity	764,809	$ 0.01	6/25/2038
Total		8,472,439		
Weighted average exercise price			$ 4.34	
Weighted average life in years				6.07

In June 2018, the Company closed an underwritten public offering of an aggregate of 1,378,400 Common Units, at an offering price of $2.00 each, each comprised of one share of the Company's common stock, par value $0.00001 per share and one Series A warrant to purchase one share of common stock. The public offering also included 6,242,811 pre-funded units at an offering price of $1.99 each, each comprised of one pre-funded Series B Warrant, and one Series A warrant to purchase one share of common stock. Each Series A warrant has an exercise price of $2.00 per share, is exercisable immediately and expires five years from the date of issuance. Each Series B warrant has an exercise price of $0.01 per share, is exercisable immediately and will expire twenty years from the date of issuance (see Note 12). The net proceeds to the Company, after deducting the underwriting discounts and commissions and other offering expenses, were $13.5 million.

At inception the 2014 and 2018 Warrants had provisions that precluded equity classification. Upon amendment, the Company assessed whether the warrants required accounting as derivatives and determined that the warrants were (1) indexed to the Company's own stock and (2) classified in stockholders' equity in accordance with FASB Accounting Standards Codification Topic 815, Derivatives and Hedging. As such, the Company concluded that the warrants meet the scope exception for determining whether the instruments require accounting as derivatives and accordingly are classified in stockholders' equity. See below for a further description of the warrant amendment.

Warrant Exchange

On August 10, 2017, the Company entered into exchange agreements with certain holders of the warrants, dated May 9, 2014, to exchange such warrants for shares of common stock equivalent to 3.5 times the number of shares of common stock issuable to such holders at the $96.75 exercise price under the warrants as of the date of the exchanges. The Company issued an aggregate of 80,857 shares of common stock to the warrant holders in exchange for their warrants to purchase an aggregate of 23,102 shares of common stock. The warrants exchanged in this transaction were subsequently cancelled and terminated.

The Company re-measured the fair value of the exchanged warrants immediately prior to the exchange and recorded a $3.0 million derivatives loss on the statement of operations and a corresponding increase to the warrant liability on the balance sheet. The fair value of the warrants immediately prior to the exchange was equivalent to 80,857 shares of common stock at the Company's closing stock price of $43.75 on August 9, 2017, the day before execution of the exchange. As a result of the exchange, the Company recorded the settlement by removing the derivative liability related to the exchanged warrants and recorded the issuance of common stock for $3.5 million.

Following the warrant exchange, there were additional warrants, dated May 9, 2014, to purchase shares of common stock that remain outstanding ("Outstanding 2014 Warrants"). As a result of the Company's issuance of common stock in exchange for certain of the liability warrants, the exercise price of the Outstanding 2014

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Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

(Continued)

Warrants was adjusted downwards from $96.75 per share to $20.75 per share and additional warrants were issued such that the Outstanding 2014 Warrants were exercisable for an aggregate of 1,941 shares of common stock.

Warrant Cancellation

In the fourth quarter of 2017, the Company entered into warrant cancellation agreements with certain holders of the Outstanding 2014 Warrants to cancel and terminate such warrants for total cash consideration of $40 thousand. As of December 31, 2017, the remaining Outstanding 2014 Warrants were exercisable for an aggregate of 537 shares of common stock.

During nine months ended September 30, 2018 the Company entered into warrant cancellation agreements with certain holders of the Outstanding 2014 Warrants to cancel and terminate such warrants for total cash consideration of $14 thousand. As of September 30, 2018, the sole remaining Outstanding 2014 Warrants was exercisable for an aggregate of 307 shares of common stock.

Warrant Amendment

In May 2018, the Company entered into a warrant amendment agreement with the sole remaining holder of an Outstanding 2014 Warrant (the “Warrant Amendment”). The warrant holder received cash compensation of $19 thousand and a two year extension of warrant term in exchange for the removal of all anti-dilution provisions except those for stock splits, reverse splits or stock dividends. As a result of the amendment, the Company reclassified the remaining 2014 warrants valued at $1 thousand to stockholders’ equity (see Note 12).

In September 2018, the Company entered into the Ladenburg Warrant Amendment. As a result of the Ladenburg Warrant Amendment, the Company reclassified the 2018 Warrants valued at $14.7 million to stockholders’ equity (see Note 12).

12. DERIVATIVE INSTRUMENTS

The warrants issued in connection with the Company's 2018 underwritten public offering had provisions that precluded the Company from classifying them as equity instruments (See Note 11). Accordingly, these warrants had been accounted for as derivative warrant liabilities. The Company used the Black-Scholes model and assumptions that considered, among other factors, the fair value of the underlying stock, risk-free interest rate, volatility, expected life, and dividend rates in estimating fair value for these warrants.

At inception the fair value of the Series B pre-funded warrants was estimated at $11.5 million using a Black-Scholes model with the following assumptions: expected volatility of 202.51%, risk free interest rate of 2.95%, expected life of 20 years and no dividends.

At inception the fair value of the Series A warrants was estimated at $13.7 million using a Black-Scholes model with the following assumptions: expected volatility of 202.51%, risk free interest rate of 2.75%, expected life of 5 years and no dividends.

The Company allocated $13.2 million of the net proceeds to record the relative fair value of the warrant liability, with the remaining amount of $286 thousand recorded to permanent equity. The Company subsequently recorded the fair value of the warrant liability at $25.2 million with the loss of $12 million being recorded as a derivative loss on the Company's consolidated statement of operations and comprehensive loss during the second quarter of 2018.

In September 2018, the Company entered into the Ladenburg Warrant Amendment. The fair value of the amended 2018 Warrants was re-measured immediately prior to the date of the Ladenburg Warrant Amendment with

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Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

(Continued)

changes in fair value recorded as a loss of $764 thousand in the Company's consolidated statement of operations and $14.7 million was reclassified to equity.

During the three months ended September 30, 2018, the Company issued an aggregate of 4,427,084 shares of common stock upon the exercise of Series B warrants for aggregate proceeds of $44 thousand. The Company reclassified $8.7 million from derivative warrant liability to additional paid-in capital and recorded a derivative loss of $1.2 million in connection with the warrant exercises. During the nine months ended September 30, 2018, the Company issued an aggregate of 5,478,002 shares of common stock upon the exercise of Series B warrants for aggregate proceeds of $55 thousand. The Company reclassified $10.6 million from derivative warrant liability to additional paid-in capital and recorded a derivative loss of $1.2 million in connection with the warrant exercises.

The 2014 Warrants issued in connection with the Company's May 2014 public offering had anti-dilution protection provisions and, under certain conditions, required the Company to automatically reprice the 2014 Warrants (See Note 11). Accordingly, the 2014 Warrants had been accounted for as derivative warrant liabilities. Through the date of the warrant exchange (Note 11), the Company used the Binomial Lattice option pricing model and assumptions that considered, among other factors, the fair value of the underlying stock, risk-free interest rate, volatility, expected life, and dividend rates in estimating fair value for the 2014 Warrants considered to be derivative instruments.

In May 2018, the Company entered into the Warrant Amendment, which removed provisions that had previously precluded equity classification treatment of the 2014 Warrants on the Company's balance sheets. The fair value of the amended 2014 Warrants was re-measured immediately prior to the date of amendment with changes in fair value recorded as a loss of $1 thousand in the Company's consolidated statement of operations and $1 thousand was reclassified to equity.

As of December 31, 2017, the derivative warrant liability was insignificant and was included as a derivative warrant liability in current liabilities on the balance sheet. Changes in the fair value of the derivative financial instruments were recognized in the Company's consolidated statement of operations as a derivative gain or loss.

The assumptions used principally in determining the fair value of the 2014 Warrants were as follows:

	2014 Warrants December 31, 2017	
Risk free interest rate	1.91	%
Expected dividend yield	—	%
Contractual term (in years)	1.4	
Expected volatility	82	%

The table below presents the changes in the derivative warrant liability during the three-month and nine-month periods ended September 30, 2018 and 2017 (in thousands):

	Three Months Ended September 30,	
	2018	2017
Balance at June 30,	$ 21,469	$ 519
Reduction in derivative liability due to exercise and repurchase of warrants	(8,730)	—
Reclassification of fair value of derivative liabilities to equity on amendment of warrant agreements	(14,706)	—
Increase in derivative liability prior to warrant exchange	—	3,029
Reduction in derivative liability due to warrant exchange	—	(3,537)
Increase in the fair value of warrants	1,967	30
Balance at September 30,	$ —	$ 41

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InVivo Therapeutics Holdings Corp.

Notes to Consolidated Financial Statements for the Quarter Ended September 30, 2018 (Unaudited)

(Continued)

	Nine Months Ended September 30,	
	2018	2017
Balance at December 31,	$ 4	$ 1,314
Issuance of new warrants	13,172	—
Reduction in derivative liability due to exercise and repurchase of warrants	(10,634)	—
Reclassification of fair value of derivative liabilities to equity on amendment of warrant agreements	(14,707)	—
Increase in derivative liability prior to warrant exchange	—	3,029
Reduction in derivative liability due to warrant exchange	—	(3,537)
Increase (decrease) in the fair value of warrants	12,165	(765)
Balance at September 30,	$ —	$ 41

13. RESTRUCTURING

In August 2017, the Company implemented a strategic restructuring. In conjunction with the strategic restructuring, the Company completed a reduction in force eliminating approximately 39% of its workforce.

During the three and nine months ended September 30, 2017, the Company recorded $738 thousand in restructuring expenses, including employee severance benefits and related costs, as well as a write-off of certain fixed assets. The Company did not record any restructuring expenses during the three or nine months ended September 30, 2018.

The following table summarizes the restructuring costs by category for the periods indicated (in thousands):

Three and Nine Months Ended
September 30, 2017

	Cash	Non-Cash (1)	Total
Research and development	$ 602	$ 41	$ 643
General and administrative	95	—	95
	$ 697	$ 41	$ 738

(1) The non-cash restructuring expenses represent write-offs of certain fixed assets in connection with the restructuring. The write-offs were recorded as a charge to research and development expense on the statement of operations.

The following table summarizes the restructuring reserve for the periods indicated (in thousands):

	September 30, 2018	December 31, 2017
Restructuring reserve beginning balance	$ 348	$ —
Cash restructuring expenses incurred during the period	—	