

NanoString Technologies Inc
Form 10-Q
November 10, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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 001-35980

NANOSTRING TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of	20-0094687 (I.R.S. Employer
incorporation or organization)	Identification No.)
530 Fairview Avenue North, Suite 2000	
Seattle, Washington 98109	
(Address of principal executive offices)	
(206) 378-6266	
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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 6, 2014 there were 18,202,475 shares of registrant's common stock outstanding.

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NANOSTRING TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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Table of Contents**PART 1. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****NanoString Technologies, Inc.****Condensed Consolidated Balance Sheets***(in thousands, except par value)***(Unaudited)**

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,826	\$ 9,941
Short-term investments	48,674	32,715
Accounts receivable, net	15,266	8,331
Inventory	5,790	6,750
Prepaid expenses and other	4,353	2,999
Total current assets	92,909	60,736
Restricted cash	143	201
Deferred offering costs		29
Property and equipment, net	5,746	3,065
Other assets	735	341
Total assets	\$ 99,533	\$ 64,372
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,166	\$ 3,354
Accrued liabilities	7,755	7,088
Deferred revenue, current portion	4,425	1,462
Deferred rent, current portion	807	590
Long-term debt, current portion	251	6,136
Total current liabilities	15,404	18,630
Deferred revenue, net of current portion	7,168	803
Deferred rent, net of current portion	784	1,313
Long-term debt, net of current portion	20,497	12,157
Total liabilities	43,853	32,903

Commitment and contingencies

Stockholders' equity

Preferred stock, \$0.0001 par value, 15,000 shares authorized; none issued

Common stock, \$0.0001 par value, 150,000 shares authorized; 18,201 and 14,620 shares issued and outstanding at September 30, 2014 and

December 31, 2013, respectively

	2	1
Additional paid-in-capital	220,190	158,278
Other comprehensive income (loss)	(21)	22
Accumulated deficit	(164,491)	(126,832)

Total stockholders' equity	55,680	31,469
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Total liabilities and stockholders' equity	\$ 99,533	\$ 64,372
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**NanoString Technologies, Inc.****Condensed Consolidated Statements of Operations***(in thousands, except per share amounts)***(Unaudited)**

	Three Months Ended September 30, 2014 2013		Nine Months Ended September 30, 2014 2013	
Revenue:				
Product and service	\$ 11,264	\$ 8,389	\$ 30,278	\$ 21,283
Collaboration	1,079		1,697	
Total revenue	12,343	8,389	31,975	21,283
Costs and expenses:				
Cost of product and service revenue	5,271	3,784	14,456	10,188
Research and development	5,961	3,784	15,967	10,469
Selling, general and administrative	12,515	7,988	36,069	20,822
Total costs and expenses	23,747	15,556	66,492	41,479
Loss from operations	(11,404)	(7,167)	(34,517)	(20,196)
Other income (expense):				
Interest income	65	22	204	28
Interest expense	(697)	(538)	(3,248)	(1,412)
Other expense	(112)	(17)	(97)	(30)
Revaluation of preferred stock warrant liability				1,156
Total other income (expense)	(744)	(533)	(3,141)	(258)
Net loss	(12,148)	(7,700)	(37,658)	(20,454)
Accretion of mandatorily redeemable convertible preferred stock				(4,653)
Net loss attributable to common stockholders	\$ (12,148)	\$ (7,700)	\$ (37,658)	\$ (25,107)
Net loss per share - basic and diluted	\$ (0.67)	\$ (0.53)	\$ (2.13)	\$ (4.74)
Shares used in computing basic and diluted net loss per share	18,134	14,616	17,711	5,292

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

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NanoString Technologies, Inc.

Condensed Consolidated Statements of Comprehensive Loss

(in thousands)

(Unaudited)

	Three Months Ended September 30, 2014 2013		Nine Months Ended September 30, 2014 2013	
Net loss	\$ (12,148)	\$ (7,700)	\$ (37,658)	\$ (20,454)
Unrealized gain (loss) on short-term investments	(28)	5	(43)	5
Comprehensive loss	\$ (12,176)	\$ (7,695)	\$ (37,701)	\$ (20,449)

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

Table of Contents**NanoString Technologies, Inc.****Condensed Consolidated Statements of Cash Flows***(in thousands)***(Unaudited)**

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net loss	\$ (37,658)	\$ (20,454)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,115	1,360
Stock-based compensation	3,604	766
Net amortization of premium on short-term investments	127	89
Amortization of debt discount	51	162
Revaluation of preferred stock warrant liability		(1,156)
Loss on extinguishment of debt	581	
Interest accrued on long-term notes	(348)	182
Accrued interest converted to principal balance of term loan	179	
Loss on disposal of property and equipment		1
Gain on sale of investments	(5)	
Changes in operating assets and liabilities		
Accounts receivable	(6,935)	(3,470)
Inventory	(1,198)	(336)
Prepaid expenses and other	(1,218)	(1,500)
Other assets	120	(275)
Accounts payable	(1,210)	1,121
Accrued liabilities	667	2,038
Deferred revenue	9,328	556
Deferred rent	(382)	(567)
Net cash used in operating activities	(33,182)	(21,483)
Investing activities		
Purchases of property and equipment	(1,284)	(500)
Decrease in restricted cash	59	
Proceeds from sale of short-term investments	4,500	
Proceeds from maturity of short-term investments	26,675	
Purchase of short-term investments	(47,271)	(33,006)
Net cash used in investing activities	(17,321)	(33,506)

Financing activities		
Borrowings under long-term debt agreements	20,000	5,000
Deferred costs related to long-term debt agreement	(770)	
Repayment of long-term debt	(18,151)	(163)
Net proceeds from public offering	57,015	47,374
Proceeds from exercise of common stock warrants	230	
Repurchase of shares related to common stock warrant exercise	(94)	
Proceeds from employee stock purchase plan	988	
Proceeds from exercise of stock options	170	378
Net cash provided by financing activities	59,388	52,589
Net increase (decrease) in cash and cash equivalents	8,885	(2,400)
Cash and cash equivalents		
Beginning of period	9,941	21,692
End of period	\$ 18,826	\$ 19,292

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

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NanoString Technologies, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Description of Business

NanoString Technologies, Inc. (the Company) was incorporated in the state of Delaware on June 20, 2003. The Company's headquarters are located in Seattle, Washington. The Company's technology enables direct detection, identification and quantification of individual target molecules in a biological sample by attaching a unique color coded fluorescent reporter to each target molecule of interest. The Company markets its proprietary nCounter Analysis System, consisting of instruments and consumables, including its Prosigna Breast Cancer Assay, to academic, government, biopharmaceutical and clinical laboratory customers.

The Company has incurred losses to date and expects to incur additional losses in the foreseeable future. The Company continues to devote the majority of its resources to the growth of its business in accordance with its business plan. The Company's activities have been financed primarily through the sale of equity securities, incurrence of indebtedness and, to a lesser extent, capital leases and other borrowings.

Public Equity Offering

In January 2014, the Company completed an underwritten public offering of 2,972,972 shares of common stock for total gross proceeds of \$55.0 million. In February 2014, the underwriters partially exercised an overallotment option, purchasing 345,945 additional shares from the Company for additional gross proceeds of \$6.4 million. After underwriters' fees and commissions and other expenses of the offering, the Company's aggregate net proceeds were approximately \$57.0 million.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect the accounts of the Company and its wholly-owned subsidiaries, NanoString Technologies International, Inc., NanoString Technologies Asia Pacific Limited, NanoString Technologies Singapore Pte. Limited, NanoString Technologies Europe Limited, NanoString Technologies Germany GmbH and NanoString Technologies SAS. The unaudited condensed consolidated balance sheet at December 31, 2013 has been derived from the audited consolidated financial statements at that date but does not include all of the information and disclosures required by generally accepted accounting principles in the United States of America (U.S. GAAP) for annual financial statements. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) and U.S. GAAP for unaudited condensed consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management,

are necessary for a fair statement of the Company's financial position and results of its operations, as of and for the periods presented.

Unless indicated otherwise, all amounts presented in financial tables are presented in thousands, except for per share and par value amounts.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of the Company's operations for the three and nine month periods ended September 30, 2014 are not necessarily indicative of the results to be expected for the full year or for any other period.

Revenue Recognition

The Company recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the price to the customer is fixed or determinable and (4) collectability is reasonably assured. The Company generates the majority of its revenue from the sale of products and services. The Company's products consist of its proprietary nCounter Analysis System and related consumables. Services consist of extended warranties and service fees for assay processing. A delivered product or service is considered to be a separate unit of accounting when it has value to the customer on a stand-alone basis. Products or services have value on a stand-alone basis if they are sold separately by any vendor or the customer could resell the delivered product.

Instruments, consumables and in vitro diagnostic kits are considered to be separate units of accounting as they are sold separately and revenue is recognized upon transfer of ownership, which is generally upon shipment. Instrument revenue related to installation and calibration services is recognized when services are rendered. For instruments sold for use primarily to run Prosigna assays, training must be provided prior to instrument revenue recognition.

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Service revenue is recognized when earned, which is generally upon the rendering of the related services. Service agreements and service fees for assay processing are each considered separate units of accounting as t