VERACYTE, INC.
Form 424B3
May 05, 2016

Filed pursuant to Rule 424(b)(3)

Registration Statement No. 333-204368

Prospectus Supplement No. 3

(to Prospectus dated March 22, 2016)

4,907,975 Shares

VERACYTE, INC.

Common Stock

This prospectus supplement amends and supplements the prospectus dated March 22, 2016 (the Prospectus), as supplemented by that certain Prospectus Supplement No. 1 dated March 28, 2016 (Supplement No. 1) and that certain Prospectus Supplement No. 2 dated March 30, 2016 (Supplement No. 2), which form a part of our Registration Statement on Form S-1 (Registration Statement No. 333-204368). This prospectus supplement is being filed to update and supplement the information included or incorporated by reference in the Prospectus, Supplement No. 1 and Supplement No. 2 with the information contained in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed with the Securities and Exchange Commission on May 5, 2016 (the Form 10-Q). Accordingly, we have attached the Form 10-Q to this prospectus supplement.

The Prospectus, Supplement No. 1, Supplement No. 2 and this prospectus supplement relate to the offer and sale by the selling stockholders identified in the Prospectus of up to an aggregate of 4,907,975 shares of our common stock.

This prospectus supplement should be read in conjunction with the Prospectus, Supplement No. 1 and Supplement No. 2. If there is any inconsistency between the information in the Prospectus, Supplement No. 1, Supplement No. 2 and this prospectus supplement, you should rely on the information in this prospectus supplement.

Our common stock is listed on The NASDAQ Global Market under the symbol VCYT. On May 4, 2016, the last reported sale price of our common stock on The NASDAQ Global Market was $5.29 per share.

Investing in our securities involves risks. See the section entitled Risk Factors beginning on page 2 of the Prospectus and in the documents we incorporate by reference in the Prospectus before making your investment decision.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the Prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is May 5, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

OR

o 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 001-36156

VERACYTE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-5455398**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6000 Shoreline Court, Suite 300

South San Francisco, California 94080

(Address of principal executive offices, zip code)

(650) 243-6300

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of April 29, 2016, there were 27,858,317 shares of common stock, par value $0.001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Financial Statements

VERACYTE, INC.

Condensed Balance Sheets

(in thousands of dollars, except share and per share amounts)

	March 31, 2016 (Unaudited)	December 31, 2015 (See Note 1)
Assets		
Current assets:		
Cash and cash equivalents	$ 47,456	$ 39,084
Accounts receivable, net of allowance of $131 and $117 as of March 31, 2016 and December 31, 2015, respectively	3,230	3,503
Supplies inventory	3,652	3,767
Prepaid expenses and other current assets	1,618	1,442
Restricted cash	238	118
Total current assets	56,194	47,914
Property and equipment, net	11,272	10,314
Finite-lived intangible assets, net	14,933	15,200
Goodwill	1,057	1,057
Restricted cash	603	603
Other assets	208	159
Total assets	$ 84,267	$ 75,247
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 4,340	$ 5,085
Accrued liabilities	7,021	8,689
Deferred Genzyme co-promotion fee	518	948
Total current liabilities	11,879	14,722
Long-term debt	24,452	4,990
Deferred rent, net of current portion	4,630	4,283
Total liabilities	40,961	23,995
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.001 par value; 5,000,000 shares authorized, no shares issued and outstanding as of March 31, 2016 and December 31, 2015		
Common stock, $0.001 par value; 125,000,000 shares authorized, 27,858,317 and 27,685,291 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	28	28
Additional paid-in capital	202,079	199,950

Accumulated deficit		(158,801)		(148,726)
Total stockholders equity		43,306		51,252
Total liabilities and stockholders equity	$	84,267	$	75,247

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

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VERACYTE, INC.

Condensed Statements of Operations and Comprehensive Loss

(Unaudited)

(in thousands of dollars, except share and per share amounts)

	Three Months Ended March 31,	
	2016	**2015**
Revenue	$ 13,550	$ 11,218
Operating expenses:		
Cost of revenue	6,279	4,566
Research and development	3,461	2,787
Selling and marketing	7,066	5,620
General and administrative	6,228	5,798
Intangible asset amortization	267	
Total operating expenses	23,301	18,771
Loss from operations	(9,751)	(7,553)
Interest expense	(367)	(89)
Other income (expense), net	43	32
Net loss and comprehensive loss	$ (10,075)	$ (7,610)
Net loss per common share, basic and diluted	$ (0.36)	$ (0.34)
Shares used to compute net loss per common share, basic and diluted	27,817,993	22,539,723

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

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VERACYTE, INC.

Condensed Statements of Cash Flows

(Unaudited)

(in thousands of dollars)

	Three Months Ended March 31,	
	2016	**2015**
Operating activities		
Net loss	$ (10,075)	$ (7,610)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	762	352
Bad debt expense	66	22
Genzyme co-promotion fee amortization	(430)	(474)
Stock-based compensation	1,496	1,223
Amortization and write-off of debt discount and issuance costs	92	11
Interest on debt balloon payment and prepayment penalty	206	19
Changes in operating assets and liabilities:		
Accounts receivable	207	466
Supplies inventory	115	(36)
Prepaid expenses and current other assets	(176)	38
Other assets	(49)	(29)
Accounts payable	301	(356)
Accrued liabilities and deferred rent	(1,113)	(2,493)
Net cash used in operating activities	(8,598)	(8,867)
Investing activities		
Purchases of property and equipment	(2,855)	(511)
Change in restricted cash	(120)	70
Net cash used in investing activities	(2,975)	(441)
Financing activities		
Proceeds from the issuance of long-term debt, net of debt issuance costs	24,600	
Payment of long-term debt	(5,000)	
Payment of end-of-term debt obligation and prepayment penalty	(288)	
Proceeds from the exercise of common stock options and employee stock purchases	633	92
Net cash provided by financing activities	19,945	92
Net increase (decrease) in cash and cash equivalents	8,372	(9,216)
Cash and cash equivalents at beginning of period	39,084	35,014
Cash and cash equivalents at end of period	$ 47,456	$ 25,798
Supplementary cash flow information of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	$ 423	$ 195
Unpaid deferred debt issuance costs	$ 148	

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

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VERACYTE, INC.

Notes to Financial Statements

1. Organization and Description of Business

Veracyte, Inc. (Veracyte or the Company) was incorporated in the state of Delaware on August 15, 2006 as Calderome, Inc. Calderome operated as an incubator until early 2008. On March 4, 2008, the Company changed its name to Veracyte, Inc. Veracyte is a molecular diagnostics company that uses genomic technology to resolve diagnostic ambiguity. The Company targets diseases in which large numbers of patients undergo invasive and costly diagnostic procedures that could have been avoided with a more accurate diagnosis from a cytology sample taken preoperatively. By improving preoperative diagnosis, the Company helps patients avoid such unnecessary invasive procedures and surgeries while reducing healthcare costs.

The Company s first commercial solution, the Afirma® Thyroid FNA Analysis, centers on the proprietary Afirma Gene Expression Classifier (GEC). The Afirma GEC helps physicians reduce the number of unnecessary surgeries by employing a proprietary 142-gene signature to preoperatively determine whether thyroid nodules previously classified by cytopathology as indeterminate can be reclassified as benign. The Afirma GEC is offered directly or as part of a comprehensive solution that also includes cytopathology. Additionally, the Afirma Malignancy Classifiers were launched in May 2014. The Company currently markets and sells Afirma in the United States and select foreign countries through a co-promotion agreement with Genzyme Corporation, a subsidiary of Sanofi, as well as selectively through other distributors internationally. On March 9, 2016, the Company gave notice of termination of the U.S. Co-Promotion Agreement, effective September 9, 2016.

In April 2015, the Company entered the lung cancer diagnostics market with the Percepta® Bronchial Genomic Classifier, a genomic test to resolve ambiguity in lung cancer diagnosis. The Company has a second product in pulmonology under development designed to help in the preoperative assessment of patients suspected to have idiopathic pulmonary fibrosis (IPF).

The Company s operations are based in South San Francisco, California and Austin, Texas, and it operates in one segment in the United States.

Basis of Presentation

The Company s financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial statements include the accounts of the Company and its former wholly-owned subsidiary, which was dissolved in

June 2015. For periods prior to the subsidiary dissolution, all intercompany accounts and transactions were eliminated in consolidation. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The condensed balance sheet as of March 31, 2016, the condensed statements of operations and comprehensive loss and the condensed statements of cash flows for the three months ended March 31, 2016 and 2015, are unaudited, but include all adjustments, consisting only of normal recurring adjustments, which the Company considers necessary for a fair presentation of its financial position, operating results and cash flows for the periods presented. The condensed balance sheet at December 31, 2015 has been derived from audited financial statements. The results for the three months ended March 31, 2016 are not necessarily indicative of the results expected for the full fiscal year or any other period. Certain figures have been reclassified on the condensed balance sheet at December 31, 2015 to conform with the adoption of Accounting Standards Update (ASU) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.*

The accompanying interim period condensed financial statements and related financial information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

Use of Estimates

The preparation of the unaudited interim financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates include: revenue recognition; contractual allowances; allowance for doubtful accounts; the useful lives of property and equipment; the recoverability of long-lived assets; the estimation of the fair value of intangible assets; stock options; income tax uncertainties, including a valuation allowance for deferred tax assets; and contingencies. The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying

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values of assets and liabilities and recorded revenue and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and assumptions.

Concentrations of Credit Risk and Other Risks and Uncertainties

The Company s cash and cash equivalents are deposited with one major financial institution in the United States. Deposits in this institution may exceed the amount of insurance provided on such deposits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Several of the components of the Company s sample collection kit and test reagents are obtained from single-source suppliers. If these single-source suppliers fail to satisfy the Company s requirements on a timely basis, it could suffer delays in being able to deliver its diagnostic solutions, a possible loss of revenue, or incur higher costs, any of which could adversely affect its operating results.

The Company is also subject to credit risk from its accounts receivable related to its sales. The Company generally does not perform evaluations of customers financial condition and generally does not require collateral.

Through March 31, 2016, all of the Company s revenue has been derived from the sale of Afirma. To date, Afirma has been delivered primarily to physicians in the United States. The Company s third-party payers in excess of 10% of revenue and their related revenue as a percentage of total revenue were as follows:

	Three Months Ended March 31,	
	2016	**2015**
Medicare	31%	24%
United Healthcare	13%	14%
Cigna	6%	15%
	50%	53%

As the number of payers reimbursing for Afirma increases, the percentage of revenue derived from Medicare and other significant third-party payers has changed and will continue to change as a percentage of total revenue.

The Company s significant third-party payers and their related accounts receivable balance as a percentage of total accounts receivable are as follows:

	March 31, 2016	**December 31, 2015**

Medicare	42%	31%
United Healthcare	19%	25%
Aetna	16%	23%
Cigna	10%	8%

No other third-party payer represented more than 10% of the Company s accounts receivable balances as of those dates.

Restricted Cash

The Company had deposits of $238,000 and $118,000 as of March 31, 2016 and December 31, 2015, respectively, including amounts restricted from withdrawal and held by a bank in the form of collateral for irrevocable standby letters of credit totaling $118,000 held as security for the lease of the Company s former headquarters and laboratory facility in South San Francisco that expired March 31, 2016. The deposits at March 31, 2016 also included $120,000 as a pledge for corporate credit cards. This restricted cash is included in current assets as of March 31, 2016. The Company also had deposits of $603,000 included in long-term assets as of March 31, 2016 and December 31, 2015, restricted from withdrawal and held by a bank in the form of collateral for an irrevocable standby letter of credit held as security for the lease of the Company s new South San Francisco facility signed in April 2015.

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Allowance for Doubtful Accounts

The Company estimates an allowance for doubtful accounts against its individual accounts receivable based on estimates of expected reimbursement consistent with historical payment experience in relation to the amounts billed. Bad debt expense is included in general and administrative expense on the Company s statements of operations and comprehensive loss. Accounts receivable are written off against the allowance when there is substantive evidence that the account will not be paid.

The balance of allowance for doubtful accounts as of March 31, 2016 and December 31, 2015 was $131,000 and $117,000, respectively. Bad debt expense was $66,000 and $22,000 for the three months ended March 31, 2016 and 2015, respectively and is included in general and administrative expenses in the accompanying condensed statements of operations. Write offs for doubtful accounts of $52,000 and $21,000 were recorded against the allowance for doubtful accounts during the three months ended March 31, 2016 and 2015, respectively.

Fair Value of Financial Instruments

The carrying amounts of certain financial instruments including cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued liabilities approximate fair value due to their relatively short maturities.

Revenue Recognition

The Company recognizes revenue in accordance with the provision of ASC 954-605, *Health Care Entities Revenue Recognition.* The Company s revenue is generated from the provision of diagnostic services using the Afirma solution and the service is completed upon the delivery of test results to the prescribing physician, at which time the Company bills for the service. The Company recognizes revenue related to billings for Medicare and commercial payers on an accrual basis, net of contractual and other adjustments, when amounts that will ultimately be realized can be estimated. Contractual and other adjustments represent the difference between the list price (the billing rate) and the estimated reimbursement rate for each payer. Upon ultimate collection, the amount received from Medicare and commercial payers where reimbursement was estimated is compared to previous estimates and, if necessary, the contractual allowance is adjusted accordingly. Until a contract has been negotiated with a commercial payer or governmental program, the Afirma solution may or may not be covered by these entities existing reimbursement policies. In addition, patients do not enter into direct agreements with the Company that commit them to pay any portion of the cost of the tests in the event that their insurance declines to reimburse the Company. In the absence of an agreement with the patient or other clearly enforceable legal right to demand payment from the patient, the related revenue is only recognized upon the earlier of payment notification, if applicable, or cash receipt.

The estimates of amounts that will ultimately be realized requires significant judgment by management. Some patients have out-of-pocket costs for amounts not covered by their insurance carrier, and the Company may bill the patient directly for these amounts in the form of co-payments and co-insurance in accordance with their insurance carrier and health plans. Some payers may not cover the Company s GEC as ordered by the prescribing physician under their reimbursement policies. The Company pursues reimbursement from such patients on a case-by-case basis. In the absence of contracted reimbursement coverage or the ability to estimate the amount that will ultimately be realized for the Company s services, revenue is recognized upon the earlier of receipt of third-party payer notification of payment or when cash is received.

Revenue recognized when cash is received and on an accrual basis for the three months ended March 31, 2016 and 2015 was as follows (in thousands of dollars):

	Three Months Ended March 31,	
	2016	2015
Revenue recognized when cash is received	$ 5,324	$ 5,832
Revenue recognized on an accrual basis	8,226	5,386
Total	$ 13,550	$ 11,218

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or cumulative effect transition

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method. Adoption is permitted as early as the first quarter of 2017 and is required by the first quarter of 2018. The Company has not yet selected a transition method and is currently evaluating the potential effect of the updated standard on its financial statements.

In August 2014, FASB issued ASU No. 2014-15, *Presentation of Financial Statements Going Concern Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern*. The amendments require management to assess an entity s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments: (1) provide a definition of the term substantial doubt; (2) require an evaluation every reporting period including interim periods; (3) provide principles for considering the mitigating effect of management s plans; (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management s plans; (5) require an express statement and other disclosures when substantial doubt is not alleviated; and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 will be effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016 with early adoption permitted. ASU 2014-15 will be effective for the Company beginning with its annual report for fiscal 2016 and interim periods thereafter. The Company does not anticipate that the adoption of this ASU will have a significant impact on its financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, to require debt issuance costs to be presented as an offset against debt outstanding. The update does not change current guidance on the recognition and measurement of debt issuance costs. The ASU is effective for interim and annual periods beginning after December 15, 2015. Adoption of the ASU is retrospective to each prior period presented. The Company has adopted this ASU and the retrospective adjustment of the prior period presentation was not material.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. The ASU requires that deferred tax assets and liabilities be classified as noncurrent in the statement of financial position, thereby simplifying the current guidance that requires an entity to separate deferred assets and liabilities into current and noncurrent amounts. This ASU will be effective for the Company beginning in the first quarter of fiscal year 2018 though early adoption is permitted. The Company early-adopted the ASU as of December 31, 2015 and the impact of adoption on its statement of financial position was not material.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation*, related to the tax effects of share-based awards. The ASU requires that all the tax effects of share-based awards be recorded through the income statement, thereby simplifying the current guidance that requires related tax deductions in excess of compensation cost (Excess) be recorded in equity and tax deficiencies, when compensation cost exceed tax deductions, be recorded in equity to the extent of the previously recognized Excess with the remainder to be recorded in income tax expense. The ASU will be effective for interim and annual periods beginning after December 15, 2016. The Company does not anticipate that the adoption of this ASU will have a significant impact on its financial statements.

2. Net Loss Per Common Share

The following outstanding common stock equivalents have been excluded from diluted net loss per common share because their inclusion would be anti-dilutive:

	Three Months Ended March 31,	
	2016	2015
Shares of common stock subject to outstanding options	5,283,180	4,270,198
Employee stock purchase plan	24,827	
Total shares of common stock equivalents	5,308,007	4,270,198

3. Accrued Liabilities

Accrued liabilities consisted of the following (in thousands of dollars):

	March 31, 2016	December 31, 2015
Accrued compensation expenses	$ 2,703	$ 4,212
Accrued Genzyme co-promotion fees	2,055	2,089
Accrued other	2,263	2,388
Total accrued liabilities	$ 7,021	$ 8,689

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4. Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The carrying amounts of certain financial instruments of the Company, including cash and cash equivalents, prepaid expenses and other current assets, accounts payable and accrued liabilities, approximate fair value due to their relatively short maturities. The carrying value of the Company s debt approximates its fair value because the interest rate approximates market rates that the Company could obtain for debt with similar terms. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level I: Inputs which include quoted prices in active markets for identical assets and liabilities.

- Level II: Inputs other than Level I that are observable, either directly or indirectly, 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 III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value of the Company s financial assets, which consist only of money market funds, was $46.5 million and $37.5 million as of March 31, 2016 and December 31, 2015, respectively, and are Level I assets as described above.

5. Commitments and Contingencies

Operating Leases

The Company leases its headquarters and South San Francisco, California laboratory facilities under a non-cancelable lease agreement for approximately 59,000 square feet. The lease began in June 2015 and ends in March 2026 and contains extension of lease term and expansion options. In conjunction with this lease, the landlord provided funding of approximately $3.3 million for tenant improvements, all of which was received as of December 31, 2015. The Company incurred $3.6 million in addition to the landlord s tenant allowance as of March 31, 2016 to complete the build-out of the facility. The Company had deposits of $603,000 included in long-term assets as of March 31, 2016, restricted from withdrawal and held by a bank in the form of collateral for an irrevocable standby letter of credit totaling $603,000 held as security for the lease of the new South San Francisco facility.

The Company also leases laboratory space in Austin, Texas. The lease expires on July 31, 2018. The Company provided a cash security deposit of $75,000, which is included in other assets in the Company s condensed balance sheets as of March 31, 2016 and December 31, 2015.

Future minimum lease payments under non-cancelable operating leases as of March 31, 2016 are as follows (in thousands of dollars):

Year Ending December 31,	**Amounts**
2016	$ 1,570
2017	2,143
2018	2,102
2019	2,026
2020	2,082
Thereafter	11,956