NanoString Technologies Inc
Form 10-Q
August 05, 2015
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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 June 30, 2015

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	**20-0094687**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 x 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 x No ¨

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	x
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 x

As of August 3, 2015 there were 19,386,835 shares of registrant s common stock outstanding.

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NANOSTRING TECHNOLOGIES, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2015

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PART 1. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

NanoString Technologies, Inc.

Condensed Consolidated Balance Sheets

(in thousands, except par value)

(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 15,737	$ 17,223
Short-term investments	36,784	55,002
Accounts receivable, net	13,217	12,436
Inventory	9,410	5,444
Prepaid expenses and other	6,310	5,242
Total current assets	81,458	95,347
Restricted cash	143	143
Deferred offering costs	137	
Property and equipment, net	7,229	6,366
Other assets	823	892
Total assets	$ 89,790	$ 102,748
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 2,386	$ 3,380
Accrued liabilities	7,287	10,403
Deferred revenue, current portion	5,678	4,627
Deferred rent, current portion	297	147
Long-term debt, current portion	271	251
Total current liabilities	15,919	18,808
Deferred revenue, net of current portion	6,806	7,135
Deferred rent, net of current portion	1,995	1,317
Long-term debt, net of current portion	31,106	30,675
Total liabilities	55,826	57,935

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; 19,386 and 18,272 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	2	2
Additional paid-in-capital	238,159	221,724
Accumulated other comprehensive loss	(29)	(43)
Accumulated deficit	(204,168)	(176,870)
Total stockholders equity	33,964	44,813
Total liabilities and stockholders equity	\$ 89,790	\$ 102,748

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

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NanoString Technologies, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue:				
Product and service	$ 12,498	$ 10,263	$ 23,330	$ 19,014
Collaboration	568	618	1,329	618
Total revenue	13,066	10,881	24,659	19,632
Costs and expenses:				
Cost of product and service revenue	5,871	4,860	11,211	9,185
Research and development	5,798	5,274	11,714	10,006
Selling, general and administrative	12,823	12,880	26,948	23,554
Total costs and expenses	24,492	23,014	49,873	42,745
Loss from operations	(11,426)	(12,133)	(25,214)	(23,113)
Other income (expense):				
Interest income	56	75	123	139
Interest expense	(1,001)	(2,015)	(1,985)	(2,551)
Other income (expense)	(33)	(15)	(222)	15
Total other income (expense), net	(978)	(1,955)	(2,084)	(2,397)
Net loss	(12,404)	(14,088)	(27,298)	(25,510)
Net loss per share - basic and diluted	$ (0.66)	$ (0.78)	$ (1.47)	$ (1.46)
Weighted average shares used in computing basic and diluted net loss per share	18,831	18,069	18,572	17,496

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 June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net loss	$ (12,404)	$ (14,088)	$ (27,298)	$ (25,510)
Change in unrealized gain (loss) on short-term investments	(11)	(2)	14	(15)
Comprehensive loss	$ (12,415)	$ (14,090)	$ (27,284)	$ (25,525)

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

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NanoString Technologies, Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Operating activities		
Net loss	$ (27,298)	$ (25,510)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,107	745
Stock-based compensation expense	2,902	2,298
Net amortization of premium on short-term investments	152	(26)
Amortization of debt discount		51
Loss on extinguishment of debt		581
Interest accrued on long-term notes		(348)
Accrued interest converted to principal balance of term loan	538	
Loss on sale of property and equipment	(2)	
Gain on sale of investments		(2)
Changes in operating assets and liabilities:		
Accounts receivable, net	(781)	(743)
Inventory	(4,333)	(1,061)
Prepaid expenses and other	(1,091)	(936)
Other assets	69	133
Accounts payable	(989)	(655)
Accrued liabilities	(3,089)	(50)
Deferred revenue	722	5,110
Deferred rent	828	(266)
Net cash used in operating activities	(31,265)	(20,679)
Investing activities		
Purchases of property and equipment	(1,564)	(1,236)
Sale of property and equipment	20	
Decrease in restricted cash		59
Proceeds from sale of short-term investments	3,000	2,500
Proceeds from maturity of short-term investments	34,230	11,225
Purchases of short-term investments	(19,150)	(39,400)
Net cash provided by (used in) investing activities	16,536	(26,852)
Financing activities		

Borrowings under long-term debt agreements		20,000
Deferred costs related to long-term debt agreement		(770)
Repayment of long-term debt	(135)	(18,094)
Deferred offering costs	(137)	
Proceeds from public offering, net		57,015
Proceeds from sale of common stock, net	12,518	
Proceeds from exercise of common stock warrants		94
Repurchase of shares related to common stock warrant exercise		(94)
Proceeds from issuance of common stock for employee stock purchase plan	664	442
Proceeds from exercise of stock options	352	183
Net cash provided by financing activities	13,262	58,776
Net (decrease) increase in cash and cash equivalents	(1,467)	11,245
Effect of exchange rate changes on cash and cash equivalents	(19)	
Cash and cash equivalents		
Beginning of period	17,223	9,941
End of period	$ 15,737	$ 21,186

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.

Sales Agreement

On May 11, 2015, the Company entered into a sales agreement (the Sales Agreement) with Cowen and Company, LLC (Cowen) to sell shares of the Company s common stock having aggregate sales proceeds of up to $40.0 million, from time to time, through an at the market equity offering program under which Cowen will act as sales agent. Under the Sales Agreement, the Company sets the parameters for the sale of shares, including the number of shares to be issued, the time period during which sales are requested to be made, limitation on the number of shares that may be sold in any one trading day and any minimum price below which sales may not be made. The Sales Agreement provides that Cowen will be entitled to compensation for its services that will not exceed, but may be lower than, 3% of the gross sales price per share sold through them under the Sales Agreement. The Sales Agreement shall automatically terminate upon the issuance and sale of placement shares equaling sales proceeds of $40.0 million and may be terminated earlier by either the Company or Cowen upon five days notice. The Company has no obligation to sell any shares under the Sales Agreement, and may at any time suspend solicitation and offers under the Sales Agreement. On May 19, 2015, the Company commenced selling its common stock through the at the market equity offering program under the Sales Agreement. During the three months ended June 30, 2015, the Company sold an aggregate of 960,400 shares of the Company s common stock for total gross proceeds of $13.0 million. The net proceeds from the sale of the shares, after deducting Cowen s commission and other expenses of the offering, were approximately $12.5 million. As of June 30, 2015, approximately $27.0 million of the Company s common stock remained available for sale under the at the market equity offering program. As of June 30, 2015, the Company s deferred offering costs balance was $0.1 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. The unaudited condensed consolidated balance sheet at December 31, 2014 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, 2014. 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 six month periods ended June 30, 2015 are not necessarily indicative of the results to be expected for the full year or for any other period.

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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 Systems 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 by the Company. Such services can also be provided by the Company s distribution partners and other third parties. For instruments sold solely to run Prosigna assays, training must be provided prior to instrument revenue recognition. Instrument revenue from leased instruments is recognized ratably over the lease term.

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 they are sold separately. The Company offers service agreements on its nCounter Analysis Systems for periods ranging from 12 to 36 months after the end of the standard 12-month warranty period. Service agreements are generally separately priced. Revenue from service agreements is deferred and recognized in income on a straight-line basis over the service period.

For arrangements with multiple deliverables, the Company allocates the agreement consideration at the inception of the agreement to the deliverables based upon their relative selling prices. To date, selling prices have been established by reference to vendor specific objective evidence based on stand-alone sales transactions for each deliverable. Vendor specific objective evidence is considered to have been established when a substantial majority of individual sales transactions within the previous 12 month period fall within a reasonably narrow range, which the Company has defined to be plus or minus 15% of the mean sales price of actual stand-alone sales transactions. The Company uses its best estimate of selling price for individual deliverables when vendor specific objective evidence or third-party evidence is unavailable. Allocated revenue is only recognized for each deliverable when the revenue recognition criteria have been met.

The Company enters into collaborative agreements that may generate upfront fees with subsequent milestone payments that may be earned upon completion of development-related milestones. The Company is able to estimate the total cost of services under the arrangements and recognizes collaboration revenue using a proportional performance model. Costs incurred to date compared to total expected costs are used to determine proportional performance, as this is considered to be representative of the delivery of outputs under the arrangements. Revenue recognized at any point in time is limited to cash received and amounts contractually due. Changes in estimates of total expected costs are accounted for prospectively as a change in estimate. From period to period, collaboration revenue can fluctuate substantially based on the achievement of development-related milestones.

Recent Accounting Pronouncements

As an emerging growth company, the Jumpstart Our Business Startups Act allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies.

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standards update entitled ASU 2014-09, Revenue from Contracts with Customers. The standard requires entities to recognize revenue through the application of a five step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue as the entity satisfies the performance obligations. The standard will become effective for the Company for the year ended December 31, 2018. The Company is currently evaluating the guidance to determine the potential impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In June 2014, FASB issued an accounting standards update entitled ASU 2014-12, Compensation Stock Compensation. The standard requires entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The standard will become effective for the Company for the year beginning January 1, 2016. The Company is currently evaluating the guidance to determine the potential impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

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In August 2014, FASB issued an accounting standards update entitled ASU 2014-15, Presentation of Financial Statements Going Concern. The standard requires entities to evaluate for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The standard will become effective for the Company beginning January 1, 2016.

In February 2015, FASB issued an accounting standards update entitled ASU 2015-02, Amendments to the Consolidation Analysis. The standard requires entities to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The standard will become effective for the Company beginning January 1, 2017. The Company is currently evaluating the guidance to determine the potential impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In April 2015, FASB issued an accounting standards update entitled ASU 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. The standard requires entities to present debt issuance costs on the balance sheets as a direct deduction from the related debt liability rather than as an asset, and the amortization is reported as interest expense. The standard will become effective for the Company beginning January 1, 2016. The Company is currently evaluating the guidance to determine the potential impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

3. Net Loss Per Share

Net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding. Any outstanding stock options and warrants have not been included in the calculation of the diluted net loss per share because to do so would be anti-dilutive. Accordingly, the numerator and the denominator used in computing both basic and diluted net loss per share for each period are the same.

The following outstanding options and warra