NanoString Technologies Inc
Form 10-Q
November 08, 2018
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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, 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 001-35980

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
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ý 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 ý
Non-accelerated filer ¨	Smaller reporting company ¨
Emerging growth company ý	

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 ý
As of November 5, 2018 there were 30,831,497 shares of registrant's common stock outstanding.

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NANOSTRING TECHNOLOGIES, INC.
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FOR THE QUARTER ENDED SEPTEMBER 30, 2018
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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)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$21,199	$26,136
Short-term investments	73,731	51,419
Accounts receivable, net	18,530	19,564
Inventory, net	15,018	20,057
Prepaid expenses and other	7,057	4,745
Total current assets	135,535	121,921
Restricted cash	—	143
Property and equipment, net	15,191	14,057
Other assets	636	641
Total assets	$151,362	$136,762
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$5,618	$4,092
Accrued liabilities	2,937	4,507
Accrued compensation and other employee benefits	9,122	8,634
Customer deposits	10,208	8,945
Deferred revenue, current portion	8,905	9,229
Deferred rent, current portion	617	512
Total current liabilities	37,407	35,919
Deferred revenue, net of current portion	3,594	3,304
Deferred rent and other long-term liabilities	8,143	8,499
Long-term debt, net of debt issuance costs	50,133	48,931
Total liabilities	99,277	96,653
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; 30,769 and 25,421 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	3	2
Additional paid-in capital	422,282	353,308
Accumulated other comprehensive loss	(54)	(99)
Accumulated deficit	(370,146)	(313,102)
Total stockholders' equity	52,085	40,109
Total liabilities and stockholders' equity	$151,362	$136,762

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Product and service	$21,453	$16,915	$59,882	$50,990
Collaboration	7,163	10,101	16,818	28,682
Total revenue	28,616	27,016	76,700	79,672
Costs and expenses:				
Cost of product and service revenue	9,291	7,305	25,538	22,692
Research and development	16,651	11,374	45,068	33,213
Selling, general and administrative	17,810	18,380	57,897	54,590
Total costs and expenses	43,752	37,059	128,503	110,495
Loss from operations	(15,136)	(10,043)	(51,803)	(30,823)
Other income (expense):				
Interest income	384	252	826	549
Interest expense	(1,631)	(1,556)	(4,798)	(4,585)
Other income (expense), net	(46)	(12)	(330)	185
Total other income (expense), net	(1,293)	(1,316)	(4,302)	(3,851)
Net loss before provision for income tax	(16,429)	(11,359)	(56,105)	(34,674)
Provision for income tax	(57)	(45)	(185)	(137)
Net loss	$(16,486)	$(11,404)	$(56,290)	$(34,811)
Net loss per share - basic and diluted	$(0.56)	$(0.45)	$(2.09)	$(1.50)
Weighted average shares used in computing basic and diluted net loss per share	29,366	25,240	26,882	23,172

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,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	$(16,486)	$(11,404)	$(56,290)	$(34,811)
Change in unrealized loss on short-term investments	12	25	45	29
Comprehensive loss	$(16,474)	$(11,379)	$(56,245)	$(34,782)

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)

	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net loss	$(56,290)	$(34,811)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,975	2,408
Stock-based compensation expense	8,683	8,201
Amortization of premium on short-term investments	373	113
Amortization of deferred financing costs	276	198
Conversion of accrued interest to long-term debt	1,130	1,097
Provision for bad debts	467	361
Provision for inventory obsolescence	629	—
Changes in operating assets and liabilities:		
Accounts receivable	562	3,552
Inventory	3,468	(5,871)
Prepaid expenses and other assets	(2,355)	(2,412)
Accounts payable	1,261	(1,714)
Accrued liabilities	(1,388)	711
Accrued compensation and other employee benefits	532	(900)
Customer deposits	1,263	8,105
Deferred revenue	(789)	(19,608)
Deferred rent and other liabilities	(384)	1,266
Net cash used in operating activities	(39,587)	(39,304)
Investing activities		
Purchases of property and equipment	(2,855)	(3,804)
Proceeds from sale of short-term investments	5,410	2,300
Proceeds from maturity of short-term investments	34,100	38,324
Purchases of short-term investments	(62,150)	(48,305)
Net cash used in investing activities	(25,495)	(11,485)
Financing activities		
Repayment of lease financing obligations	—	(58)
Proceeds from sale of common stock, net	53,847	56,486
Proceeds from issuance of common stock warrants	2,266	175
Deferred financing costs	(63)	—
Tax withholdings related to net share settlements of restricted stock units	(197)	(309)
Proceeds from issuance of common stock for employee stock purchase plan	1,451	1,793
Proceeds from exercise of stock options	2,727	892
Net cash provided by financing activities	60,031	58,979
Net (decrease) increase in cash, cash equivalents and restricted cash	(5,051)	8,190
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(29)	24
Cash and cash equivalents and restricted cash		
Beginning of period	26,279	20,726
End of period	$21,199	$28,940

Reconciliation of cash and cash equivalents and restricted cash at end of period:		
Cash and cash equivalents	$21,199	$28,797
Restricted cash	—	143
Cash and cash equivalents and restricted cash at end of period	$21,199	$28,940

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 the Business

NanoString Technologies, Inc. (the "Company") was incorporated in the state of Delaware on June 20, 2003. The Company's headquarters is 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. In addition, the Company is collaborating with biopharmaceutical companies to develop companion diagnostic tests for various cancer therapies. The Company has incurred losses to date and expects to incur additional losses for the foreseeable future. The Company continues to invest the majority of its resources in the development and growth of its business, including significant investments in new product development and sales and marketing efforts. The Company's activities have been financed primarily through the sale of equity securities and incurrence of indebtedness, cash received by the Company pursuant to certain product development collaborations, and, to a lesser extent, through the incurrence of capital leases and other borrowings.

In January 2018, the Company entered into a Sales Agreement with a sales agent to sell shares of the Company's common stock through an "at the market" equity offering program for up to $40.0 million in gross cash proceeds. The Sales Agreement allows the Company to set 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, limits on the number of shares that may be sold in any one trading day and a minimum price below which sales may not be made. Under the terms of the Sales Agreement, commission expenses to the sales agent will be 3% of the gross sales price per share sold through the sales agent. The Sales Agreement shall automatically terminate upon the issuance and sale of shares that provide gross proceeds of $40.0 million and may be terminated earlier by either the Company or the sales agent upon five days' notice.

In July 2018, the Company completed an underwritten public offering of 4,600,000 shares of common stock, including the exercise in full by the underwriters of their option to purchase 600,000 additional shares of common stock in August 2018, for total gross proceeds of $57.5 million. After underwriter's commissions and other expenses of the offering, the Company's aggregate net proceeds were approximately $53.8 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, 2017 has been derived from the audited consolidated financial statements at that date but does not include all 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, 2017. 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 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, 2018 are not necessarily indicative of the results to be expected for the full year or for any other period.

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Reclassifications

Certain reclassifications have been made to prior year financial statements to conform to current year presentation.

Revenue Recognition

The Company recognizes revenue when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration expected to be received in exchange for those products and services. This process involves identifying the contract with a customer, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. Performance obligations are considered satisfied once the Company has transferred control of a product or service to the customer, meaning the customer has the ability to use and obtain the benefit of the product or service. The Company recognizes revenue for satisfied performance obligations only when there are no uncertainties regarding payment terms or transfer of control.

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 instrument service contracts and service fees for assay processing.

Revenue from instruments, consumables and in vitro diagnostic kits is recognized generally upon shipment to the end customer, which is when title of the product has been transferred to the customer. Instrument revenue related to installation and calibration services is recognized when the customer has possession of the instrument and the services have been performed. Such services can also be provided by the Company's distribution partners and other third parties. For instruments sold solely to run Prosigna assays, an initial training course must be provided by the Company prior to instrument revenue recognition.

Instrument service contracts are sold with contract terms ranging from 12–36 months and cover periods after the end of the initial 12-month warranty. These contracts include services to maintain performance within the Company's designed specifications and a minimum of one preventative maintenance service procedure during the contract term. Revenue from services to maintain designed specifications is considered a stand-ready obligation and recognized evenly over the contract term and service revenue related to preventative maintenance of instruments is recognized when the procedure is completed. Revenue from service fees for assay processing is recognized upon the rendering of the related performance obligation.

For arrangements with multiple performance obligations, the Company allocates the contract price in proportion to its stand-alone selling price. The Company uses its best estimate of stand-alone selling price for its products and services based on average selling prices over a 12-month period and reviews its stand-alone prices annually.

Product and service revenues from sales to customers through distributors are recognized consistent with the policies and practices for direct sales to customers, as described above.

The Company enters into collaboration agreements that may generate upfront fees, and in some cases subsequent milestone payments that may be earned upon completion of certain product development milestones or other designated activities. The Company estimates the expected total cost of product development and other services under these arrangements and recognizes collaboration revenue using a contingency-adjusted 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, amounts contractually due, or the amounts of any product development or other contractual milestone payments when achievement of a milestone is deemed to be probable. Changes in estimates of total expected collaboration product development or other costs are accounted for prospectively as a change in estimate. From period to period, collaboration revenue can fluctuate substantially based on the achievement or probable achievement of product development or other milestones, or as estimates of total expected collaboration product development or other costs are changed or updated. The Company may recognize revenue from collaboration agreements that do not include upfront or milestone-based payments. Amounts due to collaboration partners are recognized when the related activities have occurred and are classified in the statement of operations, generally as

research and development expense, based on the nature of the related activities.

Recently Adopted Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board ("FASB") issued "ASU 2014-09, Revenue from Contracts with Customers." The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer. In March 2016, the FASB issued "ASU 2016-08, Principal vs Agent Considerations (Reporting Revenue Gross versus Net)" which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued "ASU 2016-10, Identifying Performance Obligations and Licensing" which

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clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued “ASU 2016-12, Narrow-Scope Improvements and Practical Expedients” which provides practical expedients for contract modifications and clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for non-cash consideration and completed contracts at transition. The standards require an entity to recognize the amount of revenue which it expects to be entitled for the transfer of promised goods or services to a customer. This guidance replaces most existing revenue recognition guidance and requires more extensive disclosures related to revenue recognition, particularly in quarterly financial statements. A cumulative effect of applying the new revenue standard has been recognized as an adjustment to the opening balance of retained earnings as of January 1, 2018, using the modified retrospective transition method. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the period presented.

See Note 3. Revenue from Contracts with Customers, for additional accounting policy and transition disclosures.

In January 2016, FASB issued “ASU 2016-01, Financial Instruments: Overall.” The standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The Company adopted the standard in the first quarter of 2018 and adoption did not have a material impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In August 2016, FASB issued “ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.” The standard provides guidance on the presentation of certain cash receipts and cash payments in the statement of cash flows in order to reduce diversity in existing practice. The Company adopted the standard in the first quarter of 2018 and there was no material impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In November 2016, FASB issued “ASU 2016-18, Statement of Cash Flows: Restricted Cash.” The standard requires companies to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents, when reconciling the beginning-of-period and end-of-period amounts shown on the statement of cash flows. The Company adopted the standard in the first quarter of 2018 using the retrospective transition method and reflected the impact of this standard in its consolidated cash flows.

In May 2017, FASB issued “ASU 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting.” The standard clarifies which changes to the terms or conditions of a share-based payment award are required to be accounted for as modifications. The Company adopted the standard in the first quarter of 2018 prospectively and adoption did not have an impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

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 until December 31, 2018, applicable to public companies until such pronouncements are made applicable to private companies. As a result, its financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies.

In February 2016, FASB issued “ASU 2016-02, Leases – Recognition and Measurement of Financial Assets and Financial Liabilities.” The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. In August 2018, FASB issued “ASU 2018-11, Leases (Topic 842): Targeted Improvements, which allows the cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company will adopt the standard on January 1, 2019 and expects the adoption of the standard will result in the recognition of additional assets and liabilities in the consolidated balance sheet related to its existing operating lease commitments. The Company is continuing to assess the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In June 2016, FASB issued “ASU 2016-13, Financial Instruments: Credit Losses.” The standard requires disclosure regarding expected credit losses on financial instruments at each reporting date, and changes how other than temporary impairments on investments securities are recorded. The standard will become effective for the Company

beginning January 1, 2020 with early adoption permitted. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In February 2018, FASB issued “ASU 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” The new guidance permits companies to reclassify the stranded tax effects of the Tax Cuts and Jobs Act (the “Act”) on items within accumulated other comprehensive income to retained earnings. The standard will become effective for the Company beginning January 1, 2019

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with early adoption permitted. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In August 2018, FASB issued “ASU 2018-15, Intangibles — Goodwill and other — Internal-use software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” The standard aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard will become effective for the Company beginning on January 1, 2020, with early adoption permitted. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

3. Revenue from Contracts with Customers

On January 1, 2018, the Company adopted the new standard for revenue recognition provided in “ASU 2014-09, Revenue from Contracts with Customers” and has applied the modified retrospective transition method to all contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the prior period. The Company recorded a transition adjustment which reduced opening retained earnings by $0.8 million as of January 1, 2018 due to the cumulative impact of adopting the new revenue standard. The Company's revenues for the three and nine months ended September 30, 2018 included the recognition of $0.2 million and $0.6 million, respectively, as a result of adopting the new revenue standard and satisfying certain performance obligations during the period.

The Company has determined that its collaborative agreements fall within the scope of ASC 808, Collaborative Arrangements, and intends to apply the principles of ASC 606, Revenue from Contracts with Customers, in the measurement and recognition of revenue. In addition, the Company has concluded that when service contracts are sold as part of a bundled arrangement with other products and services, these contracts will no longer be accounted for under separate accounting guidance, but rather included as a separate performance obligation within a contract subject to the new standard, which includes their inclusion in the determination and allocation of the aggregate transaction price, and recognition of revenue upon the delivery of the performance obligation.

Performance obligations

Performance obligations related to instrument sales are reviewed on a contract-by-contract basis, as individual contract terms may vary, and may include installation and calibration services. For instruments sold solely to run Prosigna assays, training to the customer is a required performance obligation prior to any revenue recognition related to the instrument sale. Performance obligations for the Company's consumable products are generally completed upon shipment to the customer.

Disaggregated Revenues

The following table provides information about disaggregated revenue by major product line and primary geographic market (in thousands):

	Three Months Ended September 30, 2018				Nine Months Ended September 30, 2018			
	Americas	Europe and Middle East	Asia Pacific	Total	Americas	Europe and Middle East	Asia Pacific	Total
Product revenue:								
Instruments	$3,696	$1,149	$584	$5,429	$9,512	$4,189	$1,890	$15,591
Consumables	7,808	2,633	699	11,140	20,770	7,882	2,126	30,778
In vitro diagnostic kits	783	1,687	77	2,547	2,382	4,600	252	7,234
Total product revenue	12,287	5,469	1,360	19,116	32,664	16,671	4,268	53,603
Service revenue	1,582	641	114	2,337	4,383	1,589	307	6,279
Total product and service revenue	13,869	6,110	1,474	21,453	37,047	18,260	4,575	59,882
Collaboration revenue	7,163	—	—	7,163	16,818	—	—	16,818

Total revenues	$21,032	$6,110	$1,474	$28,616	$53,865	$18,260	$4,575	$76,700

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	Three Months Ended September 30, 2017				Nine Months Ended September 30, 2017			
	Americas	Europe and Middle East	Asia Pacific	Total	Americas	Europe and Middle East	Asia Pacific	Total
Product revenue:								
Instruments	$1,760	$1,392	$1,292	$4,444	$7,603	$4,231	$3,115	$14,949
Consumables	6,146	2,283	591	9,020	18,265	6,481	2,060	26,806
In vitro diagnostic kits	705	869	115	1,689	1,883	2,890	190	4,963
Total product revenue	8,611	4,544	1,998	15,153	27,751	13,602	5,365	46,718
Service revenue	1,348	367	47	1,762	3,179	962	131	4,272
Total product and service revenue	9,959	4,911	2,045	16,915	30,930	14,564	5,496	50,990
Collaboration revenue	10,101	—	—	10,101	28,682	—	—	28,682
Total revenues	$20,060	$4,911	$2,045	$27,016	$59,612	$14,564	$5,496	$79,672

Contract balances and remaining performance obligations

Contract liabilities are included in the current and long-term portions of deferred revenue of $12.5 million as of both periods ending September 30, 2018 and December 31, 2017, and within customer deposits of $10.2 million and $8.9 million as of September 30, 2018 and December 31, 2017, respectively, on the condensed consolidated balance sheets. Total contract liabilities increased by $1.2 million for the nine months ended September 30, 2018 as a result of cash payments received of $23.5 million related to our collaborations and service contracts, partially offset by the recognition of previously deferred revenue of $22.5 million for the completion of certain performance obligations during the period. The Company did not record any contract assets as of September 30, 2018.

Unsatisfied or partially unsatisfied performance obligations related to collaboration agreements as of September 30, 2018 were $16.7 million and are expected to be completed over the period of each collaboration agreement, through June 2020. Performance obligations related to product and service contracts as of September 30, 2018 were $6.0 million and are expected to be completed over the term of the related contract, through April 2023.

Practical expedients

The Company generally recognizes expense related to the acquisition of contracts, such as sales commissions, at the time of revenue recognition, which is generally in the same period products are sold, and in the case of services, revenue is recognized as services are rendered or over the period of time covered by the service contract, which is typically 12-months from the sale. The Company has not established any contract assets or liabilities related to contract acquisition costs as of September 30, 2018. The Company records commission expenses within selling, general and administrative expenses.

Impact of new revenue standard

In accordance with the new revenue guidance, the disclosure of the impact of adoption of this new standard to our condensed consolidated statements of operations and balance sheets was as follows:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
(in thousands, except per share amounts)	As Reported	Amounts under previous revenue standard	Effect of Change	As Reported	Amounts under previous revenue standard	Effect of Change
Revenue:						
Product and service	$21,453	$21,272	$ 181	$59,882	$59,303	$ 579
Collaboration	7,163	7,163	—	16,818	16,818	—
Total revenue	28,616	28,435	181	76,700	76,121	579
Net loss	$(16,486)	$(16,667)	$ 181	$(56,290)	$(56,869)	$ 579

Net loss per share - basic and diluted	$(0.56)	$(0.57)	$ 0.01	$(2.09)	$(2.11)	$ 0.02

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(in thousands)	September 30, 2018 As Reported	Balances under previous revenue standard	Effect of Change
Liabilities:			
Deferred revenue, current portion	$8,905	$8,730	$ 175
Stockholders' equity			
Accumulated deficit	$(370,146)	$(369,971)	$ (175)

The adoption of the new revenue standard did not have an aggregate impact on the Company's net cash provided by operating activities, but resulted in offsetting changes in certain liabilities presented within net cash provided by operating activities in the Company's condensed consolidated statement of cash flows, as reflected in the above tables.

4. 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. Outstanding stock options, restricted stock units and warrants have not been included in the calculation of 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 shares underlying outstanding options, restricted stock units and warrants were excluded from the computation of basic and diluted net loss per share for the periods presented because their effect would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Options to purchase common stock	5,302	5,443	5,496	5,337
Restricted stock units	1,194	260	1,135	260
Common stock warrants	551	270	460	311

5. Concentration of Risks

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. Cash is invested in accordance with the Company's investment policy, which includes guidelines intended to minimize and diversify credit risk. Most of the Company's investments are not federally insured. The Company has credit risk related to the collectability of its accounts receivable. The Company performs initial and ongoing evaluations of its customers' credit history or financial position and generally extends credit on account without collateral. The Company has not experienced any significant credit losses to date.

The Company had one customer/collaborator, Lam Research Corporation ("Lam") that individually represented 18% of total revenue during both the three and nine months ended September 30, 2018, respectively. During the three months ended September 30, 2017, the Company had one customer/collaborator, Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc. ("Merck"), that individually represented 34% of total revenue, respectively. During the nine months ended September 30, 2017, Merck, and Medivation, Inc. ("Medivation") and Astellas Pharma Inc. ("Astellas"), represented 21% and 14% of total revenue, respectively. The Company had no customers or collaborators that represented more than 10% of total accounts receivable as of September 30, 2018 or December 31, 2017.

The Company is also subject to supply chain risks related to the outsourcing of the manufacturing and production of its instruments to sole suppliers. Although there are a limited number of manufacturers for instruments of this type, the Company believes that other suppliers could provide similar products on comparable terms. Similarly, the Company sources certain raw materials used in the manufacture of consumables from certain sole suppliers. A change

in suppliers could cause a delay in manufacturing and a possible loss of sales, which would adversely affect operating results.

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6. Short-term Investments

Short-term investments consisted of available-for-sale securities as follows (in thousands):

Type of securities as of September 30, 2018	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate debt securities	$ 48,971	$ —	$ (19)	$ 48,952
U.S. government-related debt securities	17,916	—	(34)	17,882
Asset-backed securities	6,898	—	(1)	6,897
Total available-for-sale securities	$ 73,785	$ —	$ (54)	$ 73,731

Type of securities as of December 31, 2017	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate debt securities	$ 35,567	$ —	$ (53)	$ 35,514
U.S. government-related debt securities	15,951	—	(46)	15,905
Total available-for-sale securities	$ 51,518	$ —	$ (99)	$ 51,419

The fair values of available-for-sale securities by contractual maturity were as follows (in thousands):

	September 30, 2018	December 31, 2017
Maturing in one year or less	$ 73,731	$ 39,985
Maturing in one to three years	—	11,434
Total available-for-sale securities	$ 73,731	$ 51,419

The Company has the ability to sell its available-for-sale investments maturing greater than one year within 12 months from the balance sheet date and, accordingly, has classified these securities as current in the condensed consolidated balance sheets.

The following table summarizes investments that have been in a continuous unrealized loss position as of September 30, 2018 (in thousands).

	Less Than 12 Months		12 Months or Greater		Total	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Corporate debt securities	$19,965	$ (19)	$ —	$ —	$19,965	$ (19)
U.S. government-related debt securities	17,883	(34)	—	—	17,883	(34)
Asset-backed securities	4,456	(1)	—	—	4,456	(1)
Total	$42,304	$ (54)	$ —	$ —	$42,304	$ (54)

The Company invests in securities that are rated investment grade or better. The unrealized losses on investments as of September 30, 2018 and December 31, 2017 were primarily caused by interest rate increases.

The Company reviews the individual securities in its portfolio to determine whether a decline in a security's fair value below the amortized cost basis is other-than-temporary. The Company determined that as of September 30, 2018, there were no investments in its portfolio that were other-than-temporarily impaired.

7. Fair Value Measurements

The Company establishes the fair value of its assets and liabilities using the price that would be received to sell an asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 — Quoted prices in active markets for identical assets and liabilities.

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- Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 — Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The recorded amounts of certain financial instruments, including cash, accounts receivable, prepaid expenses and other, accounts payable and accrued liabilities, approximate fair value due to their relatively short-term maturities. The recorded amount of the Company's long-term debt approximates fair value because the related interest rates approximate rates currently available to the Company.

The Company's available-for-sale securities by level within the fair value hierarchy were as follows (in thousands):

As of September 30, 2018	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market fund	$13,761	$—	$ —	$13,761
Short-term investments:				
Corporate debt securities	—	48,952	—	48,952
U.S. government-related debt securities	—	17,882	—	17,882
Asset-backed securities	—	6,897	—	6,897
Total	$13,761	$73,731	$ —	$87,492

As of December 31, 2017	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market fund	$22,398	$—	$ —	$22,398
Short-term investments:				
Corporate debt securities	—	35,514	—	35,514
U.S. government-related debt securities	—	15,905	—	15,905
Total	$22,398	$51,419	$ —	$73,817

8. Inventory

Inventory consisted of the following as of the date indicated (in thousands):

	September 30, 2018	December 31, 2017
Raw materials	$ 3,026	$ 5,743
Work in process	4,741	4,845
Finished goods	7,251	9,469
Total inventory	$ 15,018	$ 20,057

9. Long-term Debt

In April 2014, the Company entered into a term loan agreement under which it could borrow up to $45.0 million, including an option to defer payment of a portion of the interest that would accrue on the borrowing under the term loan agreement. Upon initial closing, the Company borrowed $20.0 million, and in October 2014, the Company borrowed an additional $10.0 million under the term loan agreement.

In October 2015, the Company amended the term loan agreement to, among other provisions, increase the maximum borrowing capacity to $60.0 million (excluding deferred interest), reduce the applicable interest rate from 12.5% to 12.0%, extend the interest-only period through March 2021, and extend the final maturity to March 2022. Under the amended agreement, borrowings accrued interest at 12.0% annually, payable quarterly, of which 3.0% could be deferred during the first six years of the term at the Company's option and paid together with the principal at maturity. The Company has elected to exercise the option to defer payment of a portion of the interest and has recorded $5.4 million of deferred interest through September 30, 2018. In December 2015, the Company borrowed an additional $10.0 million under the terms of the amended agreement. In June 2016, the Company borrowed an additional $5.0 million. At December 31, 2016, the Company's option to borrow $15.0 million more under the amended term loan agreement expired. Total borrowings and deferred interest under the

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amended term loan agreement were $50.4 million and $49.3 million as of September 30, 2018 and December 31, 2017, respectively.

Under the amended term loan agreement, the Company may pay interest-only for the first seven years of the term and principal payments are due in four equal installments during the eighth year of the term. The amended term loan agreement included a declining redemption fee payable upon prepayment during the first four years after we entered into the agreement. However, this period has lapsed and we have the option to prepay the term loan, in whole or part, at any time, with no penalty. A facility fee equal to 2.0% of the amount borrowed plus any accrued interest is payable at the end of the term or when the loan is repaid in full. A long-term liability of $1.1 million for the facility fee is being accreted using the effective interest method over the term of the loan agreement. Obligations under the term loan agreement are collateralized by substantially all of the Company's assets.

The term loan agreement contains customary conditions to borrowings, events of default and negative covenants, including covenants that could limit the Company's ability to, among other things, incur additional indebtedness, liens or other encumbrances, make dividends or other distributions; buy, sell or transfer assets; engage in any new line of business; and enter into certain transactions with affiliates. The term loan agreement also includes a $2.0 million minimum liquidity covenant and revenue-based financial requirements, specifically $100.0 million for 2018 with annual increases of $15.0 million for each subsequent fiscal year thereafter. If the Company's actual revenue is below the minimum annual revenue requirement for any given year, it may avoid a related default by generating proceeds from an equity or subordinated debt issuance equal to the shortfall between its actual revenue and the minimum revenue requirement.

In January 2018, the Company entered into a $15.0 million secured revolving loan facility, with availability subject to a borrowing base consisting of eligible accounts receivable. The agreement matures in January 2021, at which time the outstanding principal will become due and payable. Interest on borrowings is payable monthly and accrues at a yearly rate equal to the greater of the prime rate, as reported in the Wall Street Journal, plus 0.50% or 4.75%. During an event of default amounts drawn accrue interest at a yearly rate equal to 8.75%. Obligations under the agreement are secured by the Company's cash and cash equivalents, accounts receivable and proceeds thereof, and inventory and proceeds from the sale thereof. The lender's interest in the collateral under the loan facility is senior to the lender's interest in such collateral under the term loan agreement. The loan facility contains various customary representations and warranties, conditions to borrowing, events of default, including cross default provisions with respect to the loan facility, and covenants, including financial covenants requiring the maintenance of minimum annual revenue and liquidity. There were no borrowings under the secured revolving loan facility as of September 30, 2018.

The Company was in compliance with its financial covenants under the term loan agreement and the secured revolving loan facility as of September 30, 2018.

Long-term debt consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Term loans payable	$50,446	$49,315
Unamortized debt issuance costs	(313)	(384)
Long-term debt, net of debt issuance costs	$50,133	$48,931

Scheduled future principal payments for outstanding debt were as follows at September 30, 2018 (in thousands):

Years Ending December 31,	
Remainder of 2018	$—
2019	—
2020	—
2021	37,834
2022	12,612
	$50,446

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10. Collaboration Agreements

The Company evaluates the classification of payments within the statements of operations between the participants in each of its collaboration agreements at inception of the agreement based on the nature of the arrangement, the nature of its business operations and the contractual terms of the arrangement. The Company has determined that amounts to be received from collaborators in connection with the collaboration agreements entered into through September 30, 2018 are related to revenue generating activities.

The Company uses a contingency-adjusted proportional performance model to recognize revenue over the Company's performance period for each collaboration agreement that includes up front, milestone-based or other contractual payments. 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 arrangement. Revenue recognized at any point in time is a factor of and limited to cash received and amounts contractually due. Changes in estimates of total expected costs are accounted for prospectively in the period of the change.

The Company recognizes revenue from collaboration agreements that do not include up front, milestone-based or other contractual payments when earned, which is generally in the same period that related costs are incurred. Amounts due to collaboration partners are recognized when the related activities have occurred and are classified in the statement of operations, generally as research and development expense, based on the nature of the related activities.

Lam Research Corporation

In August 2017, the Company entered into a collaboration agreement with Lam Research Corporation ("Lam") with respect to the development and commercialization of the Company's Hyb & Seq sequencing platform and related assays. Pursuant to the terms of the collaboration agreement, Lam will contribute up to an aggregate of $50.0 million, with amounts thereunder payable quarterly, to be applied to the research and development of the Company's Hyb & Seq platform, based on allowable development costs. Lam is eligible to receive certain single-digit percentage royalty payments from the Company on net sales of certain products and technologies developed under the collaboration agreement. The maximum amount of royalties payable to Lam will be capped at an amount up to three times the amount of development funding actually provided by Lam. The Company will retain exclusive rights to obtain regulatory approval, manufacture and commercialize the Hyb & Seq products. Lam will participate in research and product development through a joint steering committee. The Company will reimburse Lam for the cost of up to 10 full-time Lam employees each year in accordance with the product development plan.

In connection with the execution of the collaboration agreement, the Company issued Lam a warrant to purchase up to 1.0 million shares of the Company's common stock with the number of underlying shares exercisable at any time proportionate to the amount of the $50.0 million commitment that has been provided by Lam. The exercise price of the warrant is $16.75 per share, and the warrant will expire on the seventh anniversary of the issuance date. The warrant was determined to have a fair value of $6.7 million upon issuance, and such amount will be recorded as additional paid in capital proportionately from the quarterly collaboration payments made by Lam.

During the three and nine months ended September 30, 2018, the Company recognized revenue related to the Lam agreement of $5.3 million and $13.4 million, respectively. During the three and nine months ended September 30, 2017, the Company recognized revenue of $0.9 million. The Company received development funding of $7.0 million and $18.4 million related to the Lam collaboration for the three and nine months ended September 30, 2018, respectively, and $9.2 million for the three and nine months ended September 30, 2017. At September 30, 2018, the Company had recorded $2.0 million of deferred revenue related to the Lam collaboration, of which $1.2 million is estimated to be recognizable as revenue within one year. In addition, $9.6 million is included in customer deposits in the condensed consolidated balance sheet as of September 30, 2018 representing amounts received in advance. The Company incurred costs of $0.1 million and $0.2 million during the three and nine months ended September 30, 2018 related to services provided by Lam employees under the terms of the agreement. As of September 30, 2018, Lam had not exercised any warrants.

Celgene Corporation

In March 2014, the Company entered into a collaboration agreement with Celgene Corporation ("Celgene") to develop, seek regulatory approval for, and commercialize a companion diagnostic using the nCounter Analysis System to

identify a subset of patients with Diffuse Large B-Cell Lymphoma. In February 2018, the Company and Celgene entered into an amendment to their collaboration agreement in which Celgene agreed to provide the Company additional funding for work intended to enable a subtype and prognostic indication for the test being developed under the agreement for Celgene's drug REVLIMID. In addition, the amendment provides an additional milestone payment to the Company payable upon achievement of certain regulatory activities and timelines. In connection with this amendment, the Company agreed to remove the right to receive payments from Celgene in the event commercial sales of the companion diagnostic test do not exceed certain pre-

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specified minimum annual revenues during the first three years following regulatory approval. In addition, the amendment allows Celgene, at its election, to use trial samples with additional technologies for companion diagnostics.

Pursuant to the Company's agreement as amended in February 2018, the Company is eligible to receive payments from Celgene totaling up to $27.3 million, of which $5.8 million was received as an upfront payment upon delivery of certain information to Celgene and $21.5 million is for development funding and potential success-based development and regulatory milestones. There have been several amendments to the collaboration agreement and in return the Company has received additional payments totaling $2.1 million. The Company will retain all commercial rights to the diagnostic test developed under this collaboration, subject to certain backup rights granted to Celgene to commercialize the diagnostic test in a particular country if the Company elects to cease distribution or elects not to distribute the diagnostic in such country. Assuming success in the clinical trial process, and subject to regulatory approval, the Company will market and sell the diagnostic assay.

The process of successfully developing a product candidate, obtaining regulatory approval and ultimately commercializing a product candidate is highly uncertain and the attainment of any additional milestones is therefore uncertain and difficult to predict. In addition, certain milestones are outside the Company’s control and are dependent on the performance of Celgene and the outcome of a clinical trial and related regulatory processes. Accordingly, the Company is not able to reasonably estimate when, if at all, any additional milestone payments may be payable to the Company by Celgene.

During the three and nine months ended September 30, 2018, the Company recognized revenue related to the Celgene agreement of $1.6 million and $1.4 million, respectively. During the three months ended September 30, 2017, the Company recognized a $0.1 million reduction of cumulative revenue under the agreement, primarily as a result of increased estimated future regulatory costs. For the nine months ended September 30, 2017, the Company recognized revenue of $0.5 million. At September 30, 2018, the Company had recorded $4.8 million of deferred revenue related to the Celgene collaboration, of which $3.9 million is estimated to be recognizable as revenue within one year.

Merck & Co., Inc.

In May 2015, the Company entered into a clinical research collaboration agreement with Merck, to develop an assay intended to optimize immune-related gene expression signatures and evaluate the potential to predict benefit from Merck’s anti-PD-1therapy, KEYTRUDA. Under the terms of the collaboration agreement, the Company received $3.9 million in payments during 2015. In connection with the execution of the development collaboration agreement, the Company and Merck terminated the May 2015 clinical research collaboration and moved all remaining activities under the related work plan to the new development collaboration agreement. In February 2016, the Company expanded its collaboration with Merck by entering into a new development collaboration agreement to clinically develop, seek regulatory approval for, and commercialize a diagnostic test, to predict response to KEYTRUDA in multiple tumor types. During 2016, the Company received $12.0 million upfront as a technology access fee and $8.5 million of preclinical milestone payments. In October 2017, Merck notified the Company of its decision not to pursue regulatory approval of the companion diagnostic test for KEYTRUDA and, in August 2018, the Company and Merck agreed to mutually terminate their development collaboration agreement, effective as of September 30, 2018, following the completion of certain close-out activities. As part of the mutual termination agreement, Merck granted to the Company a non-exclusive license to certain intellectual property that relates to Merck’s tumor inflammation signature.

During the three and nine months ended September 30, 2018, the Company recognized revenue related to the Merck agreement of $0.2 million and $1.6 million, respectively. During the three and nine months ended September 30, 2017, the Company recognized revenue of $8.8 million and $15.4 million, respectively. The Company received development funding of $0.1 million and $1.0 million for the three and nine months ended September 30, 2018, respectively, and $2.3 million and $5.6 million for the three and nine months ended September 30, 2017, respectively. At September 30, 2018, there is no remaining deferred revenue related to the Merck collaboration.

Medivation, Inc. and Astellas Pharma, Inc.

In January 2016, the Company entered into a collaboration agreement with Medivation and Astellas to pursue the translation of a novel gene expression signature algorithm discovered by Medivation into a companion diagnostic

assay using the nCounter Analysis System. In September 2016, Medivation was acquired by Pfizer, Inc. (“Pfizer”) and became a wholly owned subsidiary of Pfizer. In May 2017, the Company received notification from Pfizer and Astellas terminating the collaboration agreement as a result of a decision to discontinue the related clinical trial.

11. Commitments and Contingencies

From time to time, the Company may become involved in litigation relating to claims arising from the ordinary course of business. Management believes that there are no claims or actions pending against the Company currently, the ultimate

disposition of which would have a material adverse effect on the Company's consolidated results of operations, financial condition or cash flows.

12. Information about Geographic Areas

The Company operates as a single reportable segment and enables customers to perform both research and clinical testing on its nCounter Analysis Systems. The Company has one sales force that sells these systems to both research and clinical testing labs, and its nCounter Elements reagents can be used for both research and diagnostic testing. In addition, the Company's Prosigna Breast Cancer Assay is marketed to clinical laboratories.

The following table of total revenue is based on the geographic location of distributors or end users who purchase products and services and collaborators. For sales to distributors, their geographic location may be different from the geographic locations of the ultimate end user. For collaboration agreements, revenues are derived from partners located primarily in the United States. Americas consists of the United States, Canada, Mexico and South America; and Asia Pacific includes Japan, China, South Korea, Singapore, Malaysia, India and Australia. Revenue by geography was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Americas	$21,032	$20,060	$53,865	$59,612
Europe & Middle East	6,110	4,911	18,260	14,564
Asia Pacific	1,474	2,045	4,575	5,496
Total revenue	$28,616	$27,016	$76,700	$79,672

Total revenue in the United States was $20.4 million and $19.7 million for the three months ended September 30, 2018 and 2017, respectively, and $51.2 million and $58.3 million for the nine months ended September 30, 2018 and 2017, respectively. The Company's assets are primarily located in the United States and not allocated to any specific geographic region. Substantially all of the Company's long-lived assets are located in the United States.

13. Subsequent Event

In October 2018, the Company entered into an amended and restated loan agreement with CRG Servicing LLC and related lending parties under which the new lenders agreed to extend term loans to the Company in an aggregate principal amount of up to $100.0 million, excluding any additional borrowings attributable to the Company's exercise of the option to defer payment on a portion of the interest that would accrue as additional borrowings under the agreement. The amended term loan is due and payable on September 30, 2024. At closing, the Company received net proceeds of approximately $7.8 million, pursuant to borrowings of $60.0 million under the new facility, net of repayment of the Company's existing term loan facility to its original lenders of $50.4 million, and transaction-related fees and expenses. Of the $40.0 million in additional borrowing capacity, the Company has the option to borrow $20.0 million until June 30, 2019 and an additional $20.0 million until March 30, 2020, subject to the achievement of certain product and service revenue thresholds prior to December 31, 2019. The amended and restated loan agreement contains liquidity and minimum annual revenue requirements, as well as conditions customary to borrowings, events of default and negative covenants.

Interest on the term loan of 10.5% is payable quarterly, of which 3% may be deferred during the six year term at the Company's option and repaid at maturity together with the principal. The Company paid an upfront fee of 0.5% of the aggregate principal amount of the initial borrowing under the facility, and will pay a fee equal to 2% of the total amount borrowed under the term loan agreement at the time the principal is repaid.

In connection with the new facility, warrants to purchase an aggregate of 341,578 shares of common stock with an exercise price per share of $21.12 were issued to the lenders, and, in the event additional amounts are drawn under the new facility, additional warrants will be issued on each subsequent draw date for 0.3% of the fully-diluted shares then outstanding. The exercise price for additional warrants will be set at a 25% premium to the average closing trading price for the 30-day trading period as of the date immediately before the applicable draw date.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available. This section should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this report. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements can be identified by words such as "believe," "anticipate," "could," "continue," "depends," "expec "expand," "forecast," "intend," "predict," "plan," "rely," "should," "will," "may," "seek," or the negative of these terms or and expressions, although not all forward-looking statements contain these words. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other "forward-looking" information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements include, but are not limited to:

- our expectations regarding our future operating results and capital needs, including our expectations regarding instrument, consumable and total revenue, operating expenses, sufficiency of cash on hand and operating and net loss;
- our ability to successfully launch and commercialize our Digital Spatial Profiling and Hyb & Seq platforms;
- the success, costs and timing of implementation of our business model, strategic plans for our business and future product development plans;
- the regulatory regime and our ability to secure regulatory clearance or approval or reimbursement for the clinical use of our products, domestically and internationally;
- our ability to realize the potential payments set forth in our collaboration agreements;
- our strategic relationships, including with patent holders of our technologies, manufacturers and distributors of our products, collaboration partners and third parties who conduct our clinical studies;
- our intellectual property position;
- our ability to attract and retain key scientific or management personnel;
- our expectations regarding the market size and growth potential for our business; and
- our ability to sustain and manage growth, including our ability to expand our customer base, develop new products, enter new markets and hire and retain key personnel.

These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this report in Part II, Item 1A — "Risk Factors," and elsewhere in this report. These statements, like all statements in this report, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. In this report, "we," "our," "us," "NanoString," and "the Company" refer to NanoString Technologies, Inc. and its subsidiaries.

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Overview

We develop, manufacture and sell robust, intuitive products that unlock scientifically valuable and clinically actionable biologic information from minute amounts of tissue. Our nCounter Analysis System directly profiles hundreds of molecules simultaneously using a novel optical barcoding technology that is powerful enough for use in research, yet simple enough for use in clinical laboratories worldwide. We market systems and related consumables to researchers in academic, government and biopharmaceutical laboratories for use in understanding fundamental biology and the molecular basis of disease, and to clinical laboratories and medical centers for diagnostic use. As of September 30, 2018, we had an installed base of approximately 695 nCounter systems, which our customers have used to publish more than 2,000 peer-reviewed papers. As researchers using our systems discover new biologic insights to improve clinical decision-making, these discoveries may be translated and validated as diagnostic tests. For example, our first molecular diagnostic product is the Prosigna Breast Cancer Assay, which provides an assessment of a patient's risk of recurrence for breast cancer. In addition, we collaborate with biopharmaceutical companies to develop companion diagnostics that may be used to identify which patients are most likely to respond to a particular therapeutic treatment.

We derive a substantial majority of our revenue from the sale of our products to life science researchers, which consist of our nCounter instruments and related proprietary consumables. After buying an nCounter Analysis System, research customers purchase consumables from us for use in their experiments. Our instruments are designed to work only with our consumable products. Accordingly, as the installed base of our instruments grows, we expect recurring revenue from consumable sales to become an increasingly important driver of our operating results. We also derive revenue from processing fees related to proof-of-principle studies we conduct for potential customers and extended service contracts for our nCounter Analysis Systems. Additionally, we generate revenue through product development collaborations.

We use third-party contract manufacturers to produce the instruments comprising our nCounter Analysis Systems. We manufacture consumables at our Seattle, Washington facility. This operating model is designed to be capital efficient and to scale efficiently as our product volumes grow. We focus a substantial portion of our resources on developing new technologies, products and solutions. We sell our products and services through our own sales force in the United States, Canada, Singapore, Israel and certain European countries. We sell through distributors in other parts of the world.

In addition to the nCounter Analysis System, we are currently developing two new systems enabled by our proprietary optical barcoding technology. Following completion of product development, each of these new systems is expected to be commercialized as a new instrument along with associated consumables.

The first new platform, which we have recently branded as GeoMx, is our Digital Spatial Profiling technology, or DSP, which is designed to allow researchers to address important questions regarding how protein and gene expression vary spatially in different selected regions of interest across the landscape of a heterogeneous tissue biopsy. Our GeoMx DSP instruments, which are currently in a beta design phase, are expected to image slide-mounted tissue biopsies, allow selection of regions of interest for analysis by the researcher, and automate the preparation of samples from selected regions of interest for molecular profiling, using either an nCounter system or next generation gene sequencer. The Company's GeoMx DSP technology is expected to offer a number of advantages when compared with traditional technologies, including the ability to profile a larger number of different genes or proteins in each selected region of interest, more flexibility on the selection of regions, and the processing of a larger number of samples per day.

Early access sales of GeoMx DSP instruments and consumables commenced during the third quarter of 2018, whereby we offered a limited number of pre-launch, or beta, GeoMx DSP instruments to selected customers. We also recently announced the GeoMx Priority Site, or GPS, program. The GPS Program provides customers the opportunity to be among the first to receive a GeoMx DSP instrument following its expected commercial launch, as well as advanced service and support. Inclusion in the GPS Program will also provide researchers the opportunity to begin generating data on samples through our DSP Technology Access Program, whereby we offer DSP analysis as a service for researchers who elect to send samples to our Seattle facility during the period prior to commercial launch. GPS status will be limited to the first 20 participants who purchase the commercial system. The full

commercial launch of GeoMx DSP instruments and consumables is expected to commence during the first half of 2019.

The second new platform under development, Hyb & Seq, is a next generation gene sequencing platform. Hyb & Seq is designed with a work flow that is simpler and faster than current sequencing methods, due to the absence of library preparation, enzymes and amplification. Hyb & Seq's simple work flow and compatibility with a variety of tissue sample types offers the potential for a sample-to-answer solution for clinical sequencing. The commercial launch of a research version of Hyb & Seq is expected during 2020.

Our product and service revenue increased to $59.9 million for the nine months ended September 30, 2018, compared to $51.0 million for the first nine months of 2017. Our collaboration revenue decreased to $16.8 million for the nine months ended September 30, 2018, compared to $28.7 million for the first nine months of 2017. Historically, we have generated a

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majority of our revenue from sales to customers in North America; however, we expect sales in other regions to increase over time. We have never been profitable and had net losses of $56.3 million and $34.8 million for the nine months ended September 30, 2018 and 2017, respectively, and as of September 30, 2018 our accumulated deficit was $370.1 million.

Results of Operations

Revenue

Our product revenue consists of sales of our nCounter Analysis Systems and related consumables, including Prosigna in vitro diagnostic kits. Service revenue consists of fees associated with service contracts and conducting proof-of-principle studies, including programs in which we offer customers early access to technologies under development for which we generate data and perform analysis services on their behalf. Our customer base is primarily comprised of academic institutions, government laboratories, biopharmaceutical companies and clinical laboratories that perform analyses or testing using our nCounter Analysis Systems and purchase related consumables. Collaboration revenue is derived primarily from our collaborations with Lam and Celgene and, historically, from our terminated collaborations with Merck, Medivation and Astellas.

The following table reflects total revenue by geography based on the geographic location of our customers, distributors and collaborators. For sales to distributors, their geographic location may be different from the geographic locations of the ultimate end user.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(In thousands)			(In thousands)		
Americas	$21,032	$20,060	5 %	$53,865	$59,612	(10)%
Europe & Middle East	6,110	4,911	24 %	18,260	14,564	25 %
Asia Pacific	1,474	2,045	(28)%	4,575	5,496	(17)%
Total revenue	$28,616	$27,016	6 %	$76,700	$79,672	(4)%

The following table reflects the breakdown of revenue.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(In thousands)			(In thousands)		
Product revenue:						
Instruments	$5,429	$4,444	22 %	$15,591	$14,949	4 %
Consumables	11,140	9,020	24 %	30,778	26,806	15 %
In vitro diagnostic kits	2,547	1,689	51 %	7,234	4,963	46 %
Total product revenue	19,116	15,153	26 %	53,603	46,718	15 %
Service revenue	2,337	1,762	33 %	6,279	4,272	47 %
Total product and service revenue	21,453	16,915	27 %	59,882	50,990	17 %
Collaboration revenue	7,163	10,101	(29)%	16,818	28,682	(41)%
Total revenue	$28,616	$27,016	6 %	$76,700	$79,672	(4)%

Instrument revenue during the three and nine months ended September 30, 2018 increased as compared to the same periods in 2017, due primarily to an increase in the number of instruments sold. The magnitude of the instrument revenue increase was partially offset by a shift in sales mix towards our SPRINT instruments, which generally have lower average selling prices than our FLEX and MAX instruments. Consumables revenue increased for the three and nine months ended September 30, 2018, primarily as a result of our growing installed base of nCounter Analysis Systems, as well as growth in sales of our standardized panel consumable products. In vitro diagnostic kit revenue represents sales of Prosigna assays, which increased for the three and nine months ended September 30, 2018 as more testing providers commenced providing services and testing volumes increased, most significantly in territories

outside of the United States. The increase in service revenue was primarily related to an increase in the number of installed instruments covered by service contracts, and also increases in revenue generated from technology access fees, particularly fees related to services offered pursuant to our GeoMx DSP Technology Access Program. Our product and service revenue may continue to increase in future periods as a result of our

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increased investments in sales and marketing activities, the growth in sales of our consumable products as driven by our increasing installed base of nCounter instruments, the introduction of new nCounter consumable products, the continued sale of additional nCounter instruments and the potential commercial launch of new product platforms such as GeoMx DSP and our Hyb & Seq product candidates.

Collaboration revenue decreased for the three and nine months ended September 30, 2018 as compared to the same periods in 2017, due primarily to the termination of our collaboration with Medivation and Astellas in 2017. The termination resulted in the recognition of deferred collaboration revenue of $11.5 million for the nine months ended September 30, 2017, which represented all of the remaining deferred revenue relating to the terminated collaboration. In addition, the scope of our collaboration with Merck changed during the fourth quarter of 2017, resulting in a further reduction of collaboration revenue in 2018 as compared to the same period in 2017. These decreases were partially offset by collaboration revenue generated from our agreements with Lam and Celgene. Our collaboration agreement with Lam was entered into during the third quarter of 2017 and represented $5.3 million and $13.4 million of collaboration revenue for the three and nine months ended September 30, 2018, respectively. Collaboration revenue related to our agreement with Lam was $0.9 million for the three and nine months ended September 30, 2017.

Cost of Product and Service Revenue; Gross Profit; and Gross Margin

Cost of product and service revenue consists primarily of costs incurred in the production process, including costs of purchasing instruments from third-party contract manufacturers, consumable component materials and assembly labor and overhead, installation, warranty, service and packaging and delivery costs. In addition, cost of product and service revenue includes royalty costs for licensed technologies included in our products, provisions for slow-moving and obsolete inventory and stock-based compensation expense. We provide a one-year warranty on each nCounter Analysis System sold and establish a reserve for warranty repairs based on historical warranty repair costs incurred.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(Dollars in thousands)			(Dollars in thousands)		
Cost of product and service revenue	$9,291	$7,305	27 %	$25,538	$22,692	13 %
Product and service gross profit	$12,162	$9,610	27 %	$34,344	$28,298	21 %
Product and service gross margin	57 %	57 %		57 %	55 %	

For the three and nine months ended September 30, 2018, cost of product and service revenue increased as compared to the same periods in 2017, due to higher volumes of instruments and consumables sold, including our Prosigna in vitro diagnostic kits, as well as increased volume of service contracts associated with our growing install base of nCounter instruments. Our gross margin on product and service revenue for the nine months ended September 30, 2018 increased compared to the same period in 2017 primarily as a result of increased consumable revenue as a percentage of our overall sales mix, including sales of our Prosigna in vitro diagnostic kits, which generally have higher gross margins than our instrument placements, as well increasing sales of our panel products as a percentage of our life sciences consumables revenue. The favorable mix shift towards consumables comprising a higher percentage of our total product and service revenues was partially offset by an increase in the number of lower margin SPRINT instrument sales, and modestly lower average selling prices realized across all instrument sales, as compared to the same periods during 2017. In addition, our gross margin during the three months ended September 30, 2018 was also impacted by increases in outside consulting and other costs relating to quality assurance and system requirements for diagnostic products related manufacturing.

We expect our cost of product and service revenue to increase in future periods, primarily due to our expected growth in product and service revenue. We expect our gross margin on product and service revenue may fluctuate in future periods, depending upon our mix of instrument sales, from which we typically record lower gross margins, as compared to our sales of consumable products or services, the impact of the launch, and any sales achieved, of our new product platforms such as our GeoMx or Hyb & Seq product platforms, which during any initial launch may impact our mix of instruments sold as compared to consumables, and potential expenses we may incur for regulatory

compliance, quality assurance or related to the expansion of our manufacturing capacity. Costs related to collaboration revenue are included in research and development expense.

Research and Development Expense

Research and development expenses consist primarily of salaries and benefits, occupancy, laboratory supplies, engineering services, consulting fees, costs associated with licensing molecular diagnostics rights and clinical study expenses to support the regulatory approval or clearance of diagnostic products. We have made substantial investments in research and development since our inception. Our research and development efforts have focused primarily on the tasks required to enhance

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our technologies and to support development and commercialization of new and existing products and applications. We believe that our continued investment in research and development is essential to our long-term competitive position and expect these expenses to continue to increase in future periods. In particular, following our entry into the Lam collaboration in August 2017, which provides up to $50.0 million of funding for our Hyb & Seq program, we have experienced a significant increase in related research and development expenses.

Given the size of our research and development staff and the number of active projects at any given time, we have found that it has been effective for us to manage our research and development activities on a departmental basis. Accordingly, other than for collaborations and certain major technology development programs, we have neither required employees to report their time by project nor allocated our research and development costs to individual projects, other than collaborations. Research and development expense by functional area was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(In thousands)			(In thousands)		
Platform technology	$7,670	$3,795	102 %	$19,878	$10,860	83 %
Manufacturing process development	1,035	800	29 %	3,313	2,239	48 %
Life sciences products and applications	2,643	2,091	26 %	7,792	5,832	34 %
Diagnostic product development	2,516	1,704	48 %	5,861	5,448	8 %
Clinical, regulatory and medical affairs	1,322	1,740	(24)%	4,065	5,021	(19)%
Facility allocation	1,465	1,244	18 %	4,159	3,813	9 %
Total research and development expense	$16,651	$11,374	46 %	$45,068	$33,213	36 %

The increase in research and development expense for the three and nine months ended September 30, 2018 as compared to the same periods in 2017 is primarily attributable to an increase in staffing and personnel-related costs of $1.4 million and $4.5 million, respectively, increased supply costs associated with development of our GeoMx DSP and Hyb & Seq technologies of $1.8 million and $3.8 million, respectively, and higher professional fees of $1.8 million and $2.7 million, respectively.

We expect that research and development costs may continue to increase in future periods in support of remaining development activities relating to our GeoMx DSP and Hyb & Seq platforms. As an offset to the expected expenses relating to Hyb & Seq, Lam has committed to provide up to $50.0 million in funding.

Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of costs for our sales and marketing, finance, human resources, information technology, business development, legal and general management functions, as well as professional fees for legal, consulting and accounting services. In the first half of 2017, we made significant additions to our sales force, including the addition of new roles which are focused on sales of consumables to our existing instrument base. These changes have enabled our existing sales representatives to focus on instrument sales and support the growth of our installed instrument base. Legal, accounting and compliance costs have increased as a result of our being a public company, and we expect them to continue to increase as our business grows.

Selling, general and administrative expense was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(In thousands)			(In thousands)		
Selling, general and administrative expense	$17,810	$18,380	(3)%	$57,897	$54,590	6 %

The increase in selling, general and administrative expense for the nine month period ended September 30, 2018 as compared to the same period in 2017 was primarily attributable to increases in staffing and personnel-related costs of $2.3 million to support our sales, marketing and administrative functions, as well as an increase in professional fees of

$0.8 million related to legal, consulting and other costs associated with activities and implementation of certain processes relating to our compliance with the Sarbanes Oxley Act. These increases were partially offset by lower sales and marketing costs of $0.7 million related to fewer promotional events and other external activities. For the three month period ended September 30, 2018,

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selling, general and administrative expenses modestly decreased as compared to the same period in 2017, primarily as a result of lower audit and professional fees and lower marketing expenses due to the timing of certain activities. We expect selling, general and administrative expense to increase in future periods as the number of sales, technical support and marketing and administrative personnel grows to support the expected growth in our existing lines of business, as well as to support the introduction of new products and product platforms, including our new GeoMx DSP and Hyb & Seq product platforms.

Other Income (Expense)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
	(In thousands)			(In thousands)		
Interest income	$384	$252	52 %	$826	$549	50 %
Interest expense	(1,631)	(1,556)	5 %	(4,798)	(4,585)	5 %
Other income (expense), net	(46)	(12)	283 %	(330)	185	(278)%
Total other income (expense), net	$(1,293)	$(1,316)	(2)%	$(4,302)	$(3,851)	12 %

For the three and nine months ended September 30, 2018, other income (expense), net includes the impact of realized and unrealized losses on foreign currency associated primarily with customer receivables denominated in Euro and British Pounds, both of which generally weakened relative to the U.S. Dollar during these periods. Interest expense increased for the three and nine months ended September 30, 2018 due primarily to increases in our long-term debt borrowings associated with non-cash interest accrued in prior periods. The average balance of long-term debt outstanding for the nine months ended September 30, 2018 and 2017 was $49.9 million and $48.5 million, respectively. Both the realized and unrealized losses on foreign currency and the increases in interest expense were partially offset by increased interest income during the three and nine month periods ended September 30, 2018 resulting from higher average cash and investment balances on hand during these periods as compared to the same periods in 2017.

Liquidity and Capital Resources

As of September 30, 2018, we had cash, cash equivalents and short-term investments totaling $94.9 million. We believe our existing cash, cash equivalents and short-term investments will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. However, we may need to raise additional capital to expand the commercialization of our products, fund our operations and further our research and development activities. Our future funding requirements will depend on many factors, including: market acceptance of our products and the level of sales of our existing products and new product candidates; the nature and timing of any additional collaborations or partnerships we may establish; the nature and timing of any additional research, product development or other partnerships or collaborations we may establish; the cost and timing of establishing additional sales, marketing and distribution capabilities; the cost of our research and development activities; the cost and timing of regulatory clearances or approvals; the effect of competing technological and market developments; and the extent to which we acquire or invest in businesses, products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

We may require additional funds in the future and we may not be able to obtain such funds on acceptable terms, or at all. If we raise additional funds by issuing equity or equity-linked securities, our stockholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt or additional equity financing that we raise may contain terms that are not favorable to us or our stockholders. If we raise additional funds through partnerships, collaboration or licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our research and development programs, delay development, launch activities or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize, or reduce marketing,

customer support or other resources devoted to our products or cease operations.

Sources of Funds

Since inception, we have financed our operations primarily through the sale of equity securities and, to a lesser extent, from borrowings. Our cash used in operations for the nine months ended September 30, 2018 was $39.6 million after taking into consideration $19.7 million in cash receipts from our collaboration agreements. The timing and amount of such

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collaboration agreement receipts in the future are uncertain and therefore we may be required to secure additional amounts of cash to fund our planned operations.

Equity Financings

In July 2018, we completed an underwritten public offering of 4,600,000 shares of common stock, including the exercise in full by the underwriters of their option to purchase 600,000 additional shares of common stock in August 2018, for total gross proceeds of $57.5 million. After underwriter's commissions and other expenses of the offering, our aggregate net proceeds were approximately $53.8 million.

In January 2018, we entered into a Sales Agreement with a sales agent to sell shares of our common stock through an "at the market" equity offering program for up to $40.0 million in gross cash proceeds. The Sales Agreement allows us to set 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, limits on the number of shares that may be sold in any one trading day and a minimum price below which sales may not be made. Under the terms of the Sales Agreement, commission expenses to the sales agent will be 3% of the gross sales price per share sold through the sales agent. The Sales Agreement will automatically terminate upon the issuance and sale of placement shares equaling sales proceeds of $40.0 million and may be terminated earlier by either us, or the sales agent upon five days' notice. As of the date of this report, there had been no shares of common stock sold under this agreement.

In June 2017, we completed an underwritten public offering of 3,450,000 shares of common stock, including the exercise by the underwriter of an over-allotment option for 450,000 shares of common stock, for total gross proceeds of $57.8 million. After underwriter's fees and commissions and other expenses of the offering, our aggregate net proceeds were approximately $56.5 million.

Debt Instruments

On October 12, 2018, we entered into an Amended and Restated Term Loan Agreement, or the Loan Agreement, with CRG Partners III L.P., CRG Partners III-Parallel Fund "A" L.P., CRG Partners III Parallel Fund "B" (Cayman) L.P., CRG Partners III (Cayman) LEV AIV L.P. and CRG Partners III (Cayman) UNLEV AIV I L.P., each a Lender and collectively, the Lenders, and CRG Servicing LLC, as administrative agent and collateral agent for the Lenders, or the Agent, pursuant to which the Lenders agreed to extend term loans to us in an aggregate principal amount of up to $100.0 million, excluding any additional borrowings attributable to our exercise of the option to defer payment of a portion of the interest that would accrue on the borrowings under the Loan Agreement (such additional borrowings are referred to as the PIK Loans).

Borrowings under the Loan Agreement will consist of up to three separate term loans. The initial term loan was made available on the date of the Loan Agreement and is in the principal amount of $60.0 million, with a maturity date of September 30, 2024, or the Maturity Date. A second term loan in the principal amount of up to $20.0 million will be available at any time on or prior to June 30, 2019, at our election. On or prior to March 30, 2020, we may borrow one final additional term loan in the principal amount of up to $20.0 million, at our election, subject to the satisfaction of certain borrowing conditions, including our achievement, on or before December 31, 2019, of a revenue milestone during the 12-month period prior to such measurement date. On the dates that each of the term loans is incurred, we will pay to the Lenders a fee equal to 0.50% of the principal amount of such term loan.

The term loans shall accrue interest at a fixed rate of 10.50% per year, payable quarterly on March 31, June 30, September 30 and December 31 of each year, each referred to as a Payment Date, with the first interest payment on the initial term loan due December 31, 2018. No principal payments will be due during an interest-only period, commencing on the initial borrowing date and continuing through September 30, 2024. We are obligated to repay the Lenders the outstanding principal amounts under the term loans on the Maturity Date. For any quarterly interest payment through September 30, 2024, we may elect to pay interest in cash on the outstanding principal amounts under the term loans at a fixed rate of 7.50% per year, with the remaining 3.00% of the 10.50% interest compounded and added to the aggregate principal amounts of the term loans as PIK Loans.

We may prepay the outstanding principal amount of the term loans at any time in whole or in part, plus accrued and unpaid interest and a prepayment premium. The prepayment premium will be assessed on the aggregate principal amount repaid and will equal (i) 4.00%, if the prepayment is made on or prior to the fourth Payment Date and (ii) 3.00%, if the prepayment is made after the fourth Payment Date and on or prior to the eighth Payment Date. After

the eighth Payment Date there is no prepayment premium. In case of an optional partial prepayment or mandatory prepayment of the term loans, a backend facility fee of 2% of the aggregate principal amount of the Term Loans prepaid is payable.

On the Maturity Date or on the date the term loans become due and payable for any other reason (other than an optional or mandatory prepayment), a back-end facility fee of 2% of the aggregate principal amount of the maximum amount of the term loans (including PIK Loans) advanced or deemed advanced under the Loan Agreement is payable.

The Loan Agreement contains customary representations and warranties, events of default and affirmative and negative covenants, including, among others, covenants that limit or restrict our ability to incur indebtedness, grant liens, merge or consolidate,

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dispose of assets, make investments, make acquisitions, enter into certain transactions with affiliates, engage in any new line of business, pay dividends or make distributions, or repurchase stock, in each case subject to customary exceptions for a term loan facility of this size and type. The Loan Agreement also includes financial covenants requiring us to maintain liquidity (as defined in the Loan Agreement) that exceeds the greater of $2.0 million and any minimum cash balances we are required to maintain pursuant to any priority debt arrangements with other lenders permitted under the terms of the Loan Agreement. We must also satisfy certain minimum annual revenue requirements. As security for its obligations under the Loan Agreement, we granted the Lenders a lien on substantially all of our assets.

In connection with the Loan Agreement, we will issue warrants to the Lenders on each applicable draw date of the term loans. The number of shares underlying the warrants will be equal to (1) the number of outstanding shares of our common stock (calculated on a fully-diluted basis, assuming conversion of any convertible securities and exercise of any warrants and other options to acquire common or convertible stock) on the applicable draw date (inclusive of the shares underlying the warrant issuable on such date) multiplied by (2)(a) in the case of the draw date of the initial term loan, 0.9%, (b) in the case of the draw date for the second term loan, 0.3% and (c) in the case of the draw date for the final additional third term loan, 0.3%; provided, however, that in no event will the aggregate number of shares of our common stock issuable pursuant to the warrants issued on the three draw dates, exceed 19.99% of our common stock outstanding immediately prior to the issuance of the initial term loan warrants. The exercise price of the warrants is equal to (1) 1.25 multiplied by (2) the fair market value of a share of our common stock (calculated as the average of the closing price of a share of our common stock reported for the 30 consecutive trading days ending on the date immediately before the applicable draw date). Each warrant will be immediately exercisable once issued and will expire on the seventh anniversary of the issuance date. On October 12, 2018, the initial term loan warrants were issued to the Lenders for an aggregate of 341,578 shares with an exercise price per share of $21.12.

The proceeds of the initial term loan borrowed under the Loan Agreement will be used to repay the outstanding balance under our existing Term Loan Agreement, dated as of April 1, 2014, as amended prior to the date hereof, by and among us, the Agent, the subsidiary guarantors from time to time party thereto and the lenders from time to time party thereto, including a related end-of-term payment and make-whole premium. After such repayment and payment of fees and expenses related to the Loan Agreement, net proceeds were $7.8 million which will be used for working capital and general corporate purposes.

In January 2018, we, entered into a $15.0 million secured revolving loan facility, with availability subject to a borrowing base consisting of our eligible accounts receivable. The agreement matures in January 2021, at which time any outstanding principal will become due and payable. Interest on borrowings is payable monthly and any outstanding borrowings under the facility accrue interest at a yearly rate equal to the greater of the prime rate, as reported in the Wall Street Journal, plus 0.50% or 4.75%. During an event of default, amounts drawn accrue interest at a yearly rate equal to 8.75%. Our obligations under the agreement are secured by our cash and cash equivalents, accounts receivable and proceeds thereof, and inventory and proceeds from the sale thereof. The lender’s interest in the collateral under the loan facility is senior to the lender’s interest in such collateral under the term loan agreement, discussed below. The loan facility contains various customary representations and warranties, conditions to borrowing, events of default, including cross default provisions with respect to the loan facility, and covenants, including financial covenants requiring the maintenance of minimum annual revenue and liquidity. As of the date of this report, there have been no borrowings under the secured revolving loan facility. We were in compliance with our covenants as of September 30, 2018.

In April 2014, we entered into a term loan agreement under which up to $45.0 million could be borrowed, including an option to defer payment of a portion of the interest that would accrue on the borrowing under the term loan agreement. In October 2015, we amended our term loan agreement to, among other provisions, increase the maximum borrowing capacity to $60.0 million (excluding accrued interest), reduce the applicable interest rate from 12.5% to 12.0%, extend the interest-only period through March 2021, and extend the final maturity to March 2022. Under the amended agreement, borrowings accrued interest at 12.0% annually, payable quarterly, of which 3.0% could be deferred during the first six years of the term at our option and paid together with the principal at maturity. We have elected to exercise the option to defer a portion of the interest and we have recorded $5.4 million of deferred interest

through September 30, 2018. As of September 30, 2018, total borrowings under our amended term loan agreement were $50.4 million, which were repaid in October 2018 with the proceeds of the Loan Agreement.

The term loan agreement contains customary conditions to borrowings, events of default and negative covenants, including covenants that could limit our ability to, among other things, incur additional indebtedness, liens or other encumbrances, make dividends or other distributions; buy, sell or transfer assets; engage in any new line of business; and enter into certain transactions with affiliates. The term loan agreement also includes a $2.0 million minimum liquidity covenant and revenue-based financial covenants. We were in compliance with our covenants as of September 30, 2018.

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Uses of Funds

Our principal uses of cash are funding our operations, capital expenditures, working capital requirements and satisfaction of any outstanding obligations under our revolving or term loan facilities, respectively. Over the past several years, our revenue has increased significantly, and as a result our cash flows from customer collections have increased. However, our operating expenses have also increased as we have invested in our sales and marketing activities and growing our existing product sales, in research and development of new product platforms and technologies that we believe have the potential to drive the long-term growth of our business, and in support of our various collaborations.

Our operating cash requirements may increase in the future as we (1) invest in the research and development of new product platforms including GeoMx DSP and Hyb & Seq, (2) increase sales and marketing activities to expand the installed base of our nCounter Analysis Systems and continue to promote consumable usage, including Prosigna, and (3) develop new applications, chemistry and instruments for our nCounter platform. We cannot be certain our revenue will grow sufficiently to offset our operating expense increases, nor can we be certain that we will be successful in continuing to generate cash from new partnerships or collaborations to help fund our operations. As a result, we may need to raise additional funds to support our operations, and such funding may not be available to us on acceptable terms, or at all. If we are unable to raise additional funds when needed, our operations and ability to execute our business strategy could be adversely affected.

Historical Cash Flow Trends

The following table shows a summary of our cash flows for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Cash used in operating activities	$(39,587)	$(39,304)
Cash used in investing activities	(25,495)	(11,485)
Cash provided by financing activities	60,031	58,979

Operating Cash Flows

We derive operating cash flows from cash collected from the sale of our products and services and from collaborations. These cash flows received are currently outweighed by our use of cash for operating expenses to support the growth of our business. As a result, we have historically experienced negative cash flows from operating activities and this will likely continue for the foreseeable future.

For the nine months ended September 30, 2018, net cash used in operating activities consisted of our net loss of $56.3 million which was offset by $14.5 million of net non-cash items, such as stock-based compensation, depreciation and amortization, deferred interest converted to principal for the term loan, and provisions for bad debts and inventory, as well as $2.2 million of net decreases in our operating assets and liabilities.

For the nine months ended September 30, 2017, net cash used in operating activities consisted of our net loss of $34.8 million, which was increased by changes in deferred revenue of $19.6 million, primarily related to the termination of our Medivation and Astellas collaboration agreement, and partially offset by $2.7 million of changes in our operating assets and liabilities and $12.4 million of net non-cash items, such as stock-based compensation, depreciation and amortization, deferred interest converted to principal for the term loan, provision for bad debts, and amortization of premium on short-term investments.

Investing Cash Flows

Our most significant investing activities for the nine months ended September 30, 2018 and 2017 were related to the purchase, maturity and sale of short-term investments. Because we manage our cash usage with respect to our total cash, cash equivalents and short-term investments, we do not consider these cash flows to be important to an understanding of our liquidity and capital resources.

During the nine month periods ended September 30, 2018 and 2017, we purchased property and equipment totaling $2.9 million and $3.8 million, respectively, which we believe will be required to support the growth and expansion of our operations.

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Financing Cash Flows

Historically, we have funded our operations through the issuance of equity securities and debt borrowings.

Net cash provided by financing activities for the nine months ended September 30, 2018 consisted of net proceeds of $53.8 million from the underwritten public offering, $2.7 million of proceeds from the exercise of stock options, $2.3 million of proceeds from the issuance of common stock warrants, and $1.5 million associated with our Employee Stock Purchase Plan. These proceeds were partially offset by tax payments of $0.2 million related to the net share settlements of restricted stock units.

Net cash provided by financing activities for the nine months ended September 30, 2017 consisted of net proceeds of $56.5 million from the underwritten public offering, $1.8 million from proceeds associated with our Employee Stock Purchase Plan, and $0.9 million of proceeds from the exercise of stock options.

Contractual Obligations and Commitments

Our future significant contractual obligations as of December 31, 2017 were reported in our Annual Report on Form 10-K, filed with the SEC on March 7, 2018.

As of September 30, 2018, there have been no material changes from the contractual commitments previously disclosed in the Annual Report on Form 10-K.

Critical Accounting Policies and Significant Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

Critical accounting policies and significant estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Our critical accounting policies and estimates include those related to:

- revenue recognition;
- stock-based compensation;
- inventory valuation;
- fair value measurements; and
- income taxes.

There have been no material changes in our critical accounting policies and significant estimates in the preparation of our condensed consolidated financial statements for the nine months ended September 30, 2018 compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC on March 7, 2018.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements, see Note 2 of the Notes to the Consolidated Financial Statements under Item 1 of this report.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for any other contractually narrow or limited purpose.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks, including changes in commodity prices and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices. Prices for our products are largely denominated in U.S. dollars and, as a result, we do not face significant risk with respect to foreign currency exchange rates.

Interest Rate Risk

Generally, our exposure to market risk has been primarily limited to interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because the majority of our investments are in short-term debt securities. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. To minimize risk, we maintain our portfolio of cash, cash equivalents and short-term investments in a variety of interest-bearing instruments, which have included U.S. government and agency securities, high-grade U.S. corporate bonds, asset-backed securities, and money market funds. Declines in interest rates, however, would reduce future investment income. A 10% decline in interest rates, occurring on October 1, 2018 and sustained throughout the period ended September 30, 2019, would not be material.

As of September 30, 2018, the principal outstanding under our term borrowings was $50.4 million. The interest rates on our term borrowings under our credit facility are fixed. If overall interest rates had increased by 10% during the periods presented, our interest expense would not have been materially affected.

Foreign Currency Exchange Risk

As we continue to expand internationally our results of operations and cash flows will become increasingly subject to fluctuations due to changes in foreign currency exchange rates. Historically, a majority of our revenue has been denominated in U.S. dollars, although we sell our products and services directly in certain markets outside of the United States denominated in local currency, principally the Euro. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United States. The effect of a 10% adverse change in exchange rates on foreign denominated cash, receivables and payables would not have been material for the periods presented. As our operations in countries outside of the United States grow, our results of operations and cash flows will be subject to potentially greater fluctuations due to changes in foreign currency exchange rates, which could harm our business in the future. To date, we have not entered into any material foreign currency hedging contracts although we may do so in the future.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could adversely affect our business, financial condition and results of operations.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures. Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) prior to the filing of this quarterly report. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were, in design and operation, effective.

(b) Changes in internal control over financial reporting. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent limitation on the effectiveness of internal control.

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk

that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not engaged in any material legal proceedings. From time to time, we may become involved in litigation relating to claims arising from the ordinary course of business. We believe that there are no claims or actions pending against us currently, the ultimate disposition of which would have a material adverse effect on our consolidated results of operation, financial condition or cash flows.

Item 1A. Risk Factors

You should carefully consider the following risk factors, in addition to the other information contained in this report, including the section of this report captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and related notes. If any of the events described in the following risk factors and the risks described elsewhere in this report occurs, our business, operating results and financial condition could be seriously harmed. This report on Form 10-Q also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of factors that are described below and elsewhere in this report.

Risks Related to Our Business and Strategy

We have incurred losses since we were formed and expect to incur losses in the future. We cannot be certain that we will achieve or sustain profitability.

We have incurred losses since we were formed and expect to incur losses in the future. We incurred net losses of $56.3 million and $34.8 million for the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, we had an accumulated deficit of $370.1 million. We expect that our losses will continue for at least the next several years as we will be required to invest significant additional funds toward ongoing development and commercialization of our technology. We also expect that our operating expenses will continue to increase as we grow our business, but there can be no assurance that our revenue and gross profit will increase sufficiently such that our net losses decline, or we attain profitability, in the future. Our ability to achieve or sustain profitability is based on numerous factors, many of which are beyond our control, including the market acceptance of our products, future product development and our market penetration and margins. We may never be able to generate sufficient revenue to achieve or sustain profitability.

Our financial results may vary significantly from quarter to quarter which may adversely affect our stock price.

Investors should consider our business and prospects in light of the risks and difficulties we expect to encounter in the new, uncertain and rapidly evolving markets in which we compete. Because these markets are new and evolving, predicting their future growth and size is difficult. We expect that our visibility into future sales of our products, including volumes, prices and product mix between instruments and consumables, and the amount and timing of payments pursuant to collaboration agreements will continue to be limited and could result in unexpected fluctuations in our quarterly and annual operating results.

Numerous other factors, many of which are outside our control, may cause or contribute to significant fluctuations in our quarterly and annual operating results. These fluctuations may make financial planning and forecasting difficult. For example, in the third quarter of 2017, product and service revenue did not meet expectations which adversely affected our stock price. In addition, these fluctuations may result in unanticipated changes in our available cash, which could negatively affect our business and prospects. Factors that may contribute to fluctuations in our operating results include many of the risks described in this section. Also, one or more of such factors may cause our revenue or operating expenses in one period to be disproportionately higher or lower relative to the others. For example, in May 2017, our collaboration with Medivation, Inc. and Astellas Pharma Inc., or Astellas Pharma, was terminated, resulting in the recognition of $11.3 million of collaboration revenue during the second quarter of 2017. In October 2017, Merck Sharp & Dohme Corp., or Merck, notified us of the decision to not continue to pursue regulatory approval of the companion diagnostic for their product, KEYTRUDA, under our collaboration, resulting in the recognition of $11.6 million of collaboration revenue during the fourth quarter of 2017. In August 2018, we and Merck agreed to mutually terminate our development collaboration agreement, effective as of September 30, 2018, following the completion of certain close-out activities. Furthermore, our instruments involve a significant capital commitment by our customers and accordingly involve a lengthy sales cycle. We may expend significant effort in attempting to make

a particular sale, which may be deferred by the customer or never occur. Accordingly, comparing our operating results on a period-to-period basis may not be meaningful, and investors should not rely on our past results as an indication of our future performance. If such fluctuations occur or if our operating results deviate from our expectations or the expectations of securities analysts, our stock price may be adversely affected.

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If we do not achieve, sustain or successfully manage our anticipated growth, our business and growth prospects will be harmed.

We have experienced significant revenue growth in recent periods and we may not achieve similar growth rates in the future. Investors should not rely on our operating results for any prior periods as an indication of our future operating performance. If we are unable to maintain adequate revenue growth, our financial results could suffer and our stock price could decline. Furthermore, growth will place significant strains on our management and our operational and financial systems and processes. For example, commercialization of our GeoMx Digital Spatial Profiling, or DSP, is a key element of our growth strategy and will require us to hire and retain additional sales and marketing personnel and resources. If we do not successfully generate demand for our products or manage our anticipated expenses accordingly, our operating results will be harmed.

Our future success is dependent upon our ability to expand our customer base and introduce new applications and products.

Our current customer base is primarily composed of academic and government research laboratories, biopharmaceutical companies and clinical laboratories (including physician-owned laboratories) that perform analyses using our nCounter Analysis Systems. Our success will depend, in part, upon our ability to increase our market penetration among all of these customers and to expand our market by developing and marketing new research applications, new instruments, and new diagnostic products. During 2017, in an effort to enhance future results, we added sales staff focused on consumable sales to existing customers, enabling existing sales representatives to increase focus on instrument sales. We expect that increasing the installed base of our nCounter Analysis Systems will drive demand for our relatively high margin consumable products. If we are not able to successfully increase our installed base of nCounter Analysis Systems, sales of our consumable products and our margins may not meet expectations. Moreover, we must convince physicians and third-party payors that our diagnostic products, such as Prosigna, are cost effective in obtaining information that can help inform treatment decisions and that our nCounter Analysis Systems could enable an equivalent or superior approach that lessens reliance on centralized laboratories. Palmetto GBA, a Medicare Administrative Contractor, or MAC, that assesses molecular diagnostic technologies through its Molecular Diagnostics Services Program, or MolDx, issued a positive coverage determination for Prosigna in 2015. Several other Medicare jurisdictions that participate in the MolDx program have adopted the same coverage policy. In the fall of 2017, Palmetto declined to process Medicare claims for Prosigna tests performed at physician-owned laboratories. However, after receiving additional information demonstrating that such labs have the same qualifications required to perform Prosigna as independent labs, Palmetto has agreed to process such claims. We also plan to develop and introduce new products which would be sold primarily to new customer types, such as our GeoMx Digital Spatial Profiling, or DSP, instrument for use in pathology labs and a sequencer based on our Hyb & Seq chemistry targeted for use by hospitals and oncology clinics. Attracting new customers and introducing new applications and products requires substantial time and expense. Any failure to expand our existing customer base, or launch new applications and products, would adversely affect our ability to improve our operating results.

Our research business depends on levels of research and development spending by academic and governmental research institutions and biopharmaceutical companies, a reduction in which could limit demand for our products and adversely affect our business and operating results.

In the near term, we expect that a large portion of our revenue will be derived from sales of our nCounter Analysis Systems to academic and government research laboratories and biopharmaceutical companies worldwide for research and development applications. The demand for our products will depend in part upon the research and development budgets of these customers, which are impacted by factors beyond our control, such as:

- changes in government programs (such as the National Institutes of Health) that provide funding to research institutions and companies;
- macroeconomic conditions and the political climate;
- changes in the regulatory environment;
- differences in budgetary cycles;
- competitor product offerings or pricing;
- market-driven pressures to consolidate operations and reduce costs; and

- market acceptance of relatively new technologies, such as ours.

In addition, academic, governmental and other research institutions that fund research and development activities may be subject to stringent budgetary constraints that could result in spending reductions, reduced allocations or budget cutbacks, which could jeopardize the ability of these customers to purchase our products. Our operating results may fluctuate substantially due to reductions and delays in research and development expenditures by these customers. Any decrease in our customers' budgets or expenditures, or in the size, scope or frequency of capital or operating expenditures, could materially and

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adversely affect our business, operating results and financial condition.

Our sales cycle is lengthy and variable, which makes it difficult for us to forecast revenue and other operating results.

Our sales process involves numerous interactions with multiple individuals within an organization, and often includes in-depth analysis by potential customers of our products, performance of proof-of-principle studies, preparation of extensive documentation and a lengthy review process. As a result of these factors, the large capital investment required in purchasing our instruments and the budget cycles of our customers, the time from initial contact with a customer to our receipt of a purchase order can vary significantly and be up to 12 months or longer. With the introduction of our nCounter SPRINT system in July 2015, which is targeted at individual researchers that often have less certain funding than other potential customers, our visibility regarding timing of sales has decreased. Given the length and uncertainty of our sales cycle, we have in the past experienced, and likely will in the future experience, fluctuations in our instrument sales on a period-to-period basis. These factors also make it difficult to forecast revenue on a quarterly basis. For example, in the third quarter of 2017, our actual revenues were lower than our forecasts for many reasons that we did not predict, including extended timelines for finalizing purchase decisions by potential customers. Furthermore, from time-to-time, we may lease instruments or place instruments under reagent rental agreements, wherein a customer does not purchase an instrument upfront but instead pays a rental fee associated with each purchase of reagents. An increase in instruments placed under these lease or reagent rental agreements may reduce the number of instruments we would otherwise sell in any period. In addition, any failure to meet customer expectations could result in customers choosing to continue to use their existing systems or to purchase systems other than ours.

Our reliance on distributors for sales of our products outside of the United States, and on clinical laboratories for delivery of Prosigna testing services, could limit or prevent us from selling our products and impact our revenue.

We have established distribution agreements for our nCounter Analysis Systems and related consumable products in many countries where we do not sell directly. We intend to continue to grow our business internationally, and to do so we must attract additional distributors and retain existing distributors to maximize the commercial opportunity for our products. There is no guarantee that we will be successful in attracting or retaining desirable sales and distribution partners or that we will be able to enter into such arrangements on favorable terms. Distributors may not commit the necessary resources to market and sell our products to the level of our expectations or may choose to favor marketing the products of our competitors. If current or future distributors do not perform adequately, or we are unable to enter into effective arrangements with distributors in particular geographic areas, we may not realize long-term international revenue growth.

Similarly, we or our distributors have entered into agreements with clinical laboratories globally to provide Prosigna testing services. We do not provide testing services directly and, thus, we are reliant on these clinical laboratories to actively promote and sell Prosigna testing services. These clinical laboratories may take longer than anticipated to begin offering Prosigna testing services and may not commit the necessary resources to market and sell Prosigna testing services to the level of our expectations. Furthermore, we intend to contract with additional clinical laboratories to offer Prosigna testing services, including physician-owned laboratories, and we may be unsuccessful in attracting and contracting with new clinical laboratory providers. If current or future Prosigna testing service providers do not perform adequately, or we are unable to enter into contracts with additional clinical laboratories to provide Prosigna testing services, we may not be successful selling Prosigna and our future revenue prospects may be adversely affected.

Our strategy to seek to enter into strategic collaborations and licensing arrangements with third parties to develop diagnostic tests and other products may not be successful.

We have relied, and expect to continue to rely, on strategic collaborations and licensing agreements with third parties for discoveries based on which we develop diagnostic tests and research products. For example, we licensed the rights to intellectual property that forms the basis of Prosigna from Bioclassifier, LLC, which was founded by several of our research customers engaged in translational research. In July 2018, we agreed to amend our license agreement with Bioclassifier to increase the current royalty rate paid to Bioclassifier on sales of licensed products in the United States to an upper-single digit percentage, effective as of January 1, 2018. Similarly, in connection with our collaboration with Celgene Corporation, we licensed the rights to intellectual property relating to a gene signature for lymphoma

subtyping, which was discovered by a consortium of researchers including several of our research customers, from the National Institutes of Health. In connection with our collaboration with Merck to develop a companion diagnostic test and the subsequent termination of the collaboration agreement, Merck granted to us a non-exclusive license to certain intellectual property that relates to Merck's tumor inflammation signature. We intend to enter into more such arrangements with our research customers and other researchers, including biopharmaceutical companies, for development of future diagnostic and research products. However, there is no assurance that we will be successful in doing so. Establishing collaborations and licensing arrangements is difficult and time-consuming. Discussions may not lead to collaborations or licenses on favorable terms, if at all. To the extent we agree to work exclusively with a party in a given area, our opportunities to collaborate with others could be limited. Certain parties may seek

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to partner with companies in addition to us in connection with a project. This, in turn, may limit the commercial potential of any products that are the subject of such collaborations. Potential collaborators or licensors may elect not to work with us based upon their assessment of our financial, regulatory, commercial or intellectual property position. In particular, our customers are not obligated to collaborate with us or license technology to us, and they may choose to develop diagnostic products themselves or collaborate with our competitors.

New diagnostic product development involves a lengthy and complex process, and we may be unable to commercialize on a timely basis, or at all, any of the tests or products we develop individually or with our collaborators.

Few research and development projects result in successful commercial products, and success in early clinical studies often is not replicated in later studies. At any point, we may abandon development of a product candidate or we may be required to expend considerable resources repeating clinical studies, which would adversely impact potential revenue and our expenses. In addition, any delay in product development would provide others with additional time to commercialize competing products before we do, which in turn may adversely affect our growth prospects and operating results.

In addition, the success of the development programs for any product candidates or assays developed in collaboration with others will be dependent on the continued pursuit and success of the related drug trials by our collaborators. For example, in October 2017, Merck notified us of their decision not to continue to pursue regulatory approval of the companion diagnostic we were developing for their product, KEYTRUDA, and in August 2018, we and Merck agreed to mutually terminate our development collaboration agreement. There is no guarantee that our collaborators will continue to pursue clinical trials for product candidates or assays that are the subject of our collaborations or that such clinical trials will be successful and, as a result, we may expend considerable time and resources developing in vitro diagnostic assays that will not gain regulatory approval. For example, pursuant to our collaboration with Celgene Corporation, we are developing a companion diagnostic, LymphMark, that is expected to be a potential companion diagnostic to aid in identifying patients with diffuse large B-cell lymphoma for treatment. Depending on the outcome of the clinical trial being run by Celgene, we anticipate filing a pre-market approval application for LymphMark with the U.S. Food and Drug Administration, or FDA, within the next 18 months. Furthermore, significant consolidation in the life sciences industry has occurred during the last several years and in connection with such consolidation, the combined company often reassesses its development priorities which may impact our existing collaborations or future opportunities. For example, in May 2017, Astellas Pharma announced a joint decision with Pfizer Inc., or Pfizer, to discontinue the planned ENDEAR trial which was the subject of our collaboration. We were informed that the decision resulted from an oncology portfolio review by Astellas Pharma and Pfizer. Even if we establish new relationships, we or our collaborators may terminate those relationships or they may never result in the successful development or commercialization of future tests or other products. From time to time we have agreed to modify the terms of our agreements with collaborators, including financial terms, and in the future it is possible that we will agree to modify the terms of existing and future agreements with collaborators.

In August 2017, we entered into a collaboration agreement with Lam Research Corporation, or Lam, with respect to the development and commercialization of our Hyb & Seq sequencing platform and related assays. Pursuant to the terms of the collaboration agreement, Lam will contribute up to $50.0 million, payable quarterly, for allowable development costs. In exchange, Lam is eligible to receive certain single-digit percentage royalty payments on net sales by us of certain products and technologies developed under the collaboration agreement. In addition, we issued Lam a warrant to purchase up to 1.0 million shares of our common stock. The outcome of this collaboration is uncertain and development costs may exceed $50.0 million, in which case we would need to obtain additional funding to complete development of our Hyb & Seq sequencing platform and related assays. Ultimately the development may not be successful, which would negatively impact our prospects for future revenue growth.

Although we expect such collaborations to provide funding to cover our costs of development, the failure, discontinuation or modification of these clinical trials could negatively impact our ability to attract new collaboration partners, and would reduce our prospects for introducing new diagnostic products, revenue growth, and future operating results.

Our future capital needs are uncertain and we may need to raise additional funds in the future.

We believe that our existing cash and cash equivalents, together with funds available under our term loan agreement and revolving credit facility, will be sufficient to meet our anticipated cash requirements for at least the next 12 months. However, we may need to raise substantial additional capital to:

- expand the commercialization of our products;
- fund our operations; and
- further our research and development.

Our future funding requirements will depend on many factors, including:

- market acceptance of our products;

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- the cost and timing of establishing additional sales, marketing and distribution capabilities;
- revenue and cash flow derived from existing or future collaborations;
- the cost of our research and development activities;
- the cost and timing of regulatory clearances or approvals;
- the effect of competing technological and market developments; and
- the extent to which we acquire or invest in businesses, products and technologies, including new licensing arrangements for new products.

We cannot assure you that we will be able to obtain additional funds on acceptable terms, or at all. If we raise additional funds by issuing equity or equity-linked securities, or convertible debt, our stockholders may experience dilution. For example, in January 2018, we entered into a sales agreement with Cowen and Company, LLC, or Cowen, to sell up to $40.0 million worth of shares of our common stock, from time to time, through an “at the market” equity offering program under which Cowen will act as sales agent. In July 2018 and August 2018, we sold an aggregate of 4,600,000 shares of common stock in an underwritten public offering for net proceeds of $53.8 million. Additional debt financing, if available, may involve additional covenants restricting our operations or our ability to incur additional debt. Any debt or additional equity financing that we raise may contain terms that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or grant licenses on terms that are not favorable to us. We have in the past pursued these types of transactions, and may in the future pursue similar transactions or other strategic transactions, on our own or with other advisors, that may impact our business and prospects and the value of our common stock. If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. We also may have to reduce marketing, customer support or other resources devoted to our products or cease operations. Any of these factors could harm our operating results.

Our research and development efforts will be hindered if we are not able to contract with third parties for access to archival tissue samples.

Under standard clinical practice, tumor biopsies removed from patients are preserved and stored in formalin-fixed paraffin embedded, or FFPE, format. We rely on our ability to secure access to these archived FFPE tumor biopsy samples, as well as information pertaining to the clinical outcomes of the patients from which they were derived for our clinical development activities. Others compete with us for access to these samples. Additionally, the process of negotiating access to archived samples is lengthy because it typically involves numerous parties and approval levels to resolve complex issues such as usage rights, institutional review board approval, privacy rights, publication rights, intellectual property ownership and research parameters. In January 2017, the Department of Health and Human Services finalized new rules, which became effective as of January 19, 2018, expanding the language to be included in informed consent forms related to the collection of identifiable private information or identifiable biospecimens. If this new requirement, or other factors arising in the future, impact our ability to negotiate access to archived tumor tissue samples with hospitals, clinical partners, pharmaceutical companies, or companies developing therapeutics on a timely basis or on commercially reasonable terms, or at all, or if other laboratories or our competitors secure access to these samples before us, our ability to research, develop and commercialize future products will be limited or delayed.

The life sciences research and diagnostic markets are highly competitive. If we fail to compete effectively, our business and operating results will suffer.

We face significant competition in the life sciences research and diagnostic markets. We currently compete with both established and early stage life sciences research companies that design, manufacture and market instruments and consumables for gene expression analysis, single-cell analysis, polymerase chain reaction, or PCR, digital PCR, other nucleic acid detection and additional applications. These companies use well-established laboratory techniques such as microarrays or quantitative PCR as well as newer technologies such as next generation sequencing such as RNA-sequencing. We believe our principal competitors in the life sciences research and diagnostic markets are Agilent Technologies, Becton-Dickinson, Bio-Rad, Bio-Techne, Fluidigm, HTG Molecular Diagnostics, Illumina, Luminex, Merck Millipore, O-Link, Perkin Elmer, Qiagen, Roche Applied Science, Thermo Fisher Scientific, and

WaferGen Biosystems. In addition, there are a number of new market entrants in the process of developing novel technologies for the life sciences market.

We also compete with commercial diagnostic laboratory companies. We believe our principal competitor in the breast cancer diagnostics market is Genomic Health, which provides gene expression analysis at its central laboratory in Redwood City, California and currently commands a substantial majority of the market. We also face competition from companies such as Agendia, bioTheranostics, and Myriad Genetics.

Many of our current competitors are large publicly-traded companies, or are divisions of large publicly-traded

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companies, and may enjoy a number of competitive advantages over us, including:

- greater name and brand recognition, financial and human resources;
- broader product lines;
- larger sales forces and more established distributor networks;
- substantial intellectual property portfolios;
- larger and more established customer bases and relationships; and
- better established, larger scale, and lower cost manufacturing capabilities.

We believe that the principal competitive factors in all of our target markets include:

- cost of capital equipment;
- cost of consumables and supplies;
- reputation among customers;
- innovation in product offerings;
- flexibility and ease-of-use;
- accuracy and reproducibility of results; and
- compatibility with existing laboratory processes, tools and methods.

We believe that additional competitive factors specific to the diagnostics market include:

- availability of reimbursement for testing services;
- breadth of clinical decisions that can be influenced by information generated by tests;
- volume, quality, and strength of clinical and analytical validation data;
- inclusion in treatment guidelines; and
- economic benefit accrued to customers based on testing services enabled by products.

We cannot assure investors that our products will compete favorably or that we will be successful in the face of increasing competition from new products and technologies introduced by our existing competitors or new companies entering our markets. In addition, we cannot assure investors that our competitors do not have or will not develop products or technologies that currently or in the future will enable them to produce competitive products with greater capabilities or at lower costs than ours. For example, we recently concluded that certain of our customers have shifted certain types of experiments that previously had been performed on our nCounter system to RNA-sequencing technology. Although we are pursuing several strategies to mitigate this trend, there can be no assurance we will be successful in doing so. Any failure to compete effectively could materially and adversely affect our business, financial condition and operating results.

If Prosigna fails to achieve and sustain sufficient market acceptance, we will not generate expected revenue, and our prospects may be harmed.

Commercialization of Prosigna in Europe, the United States and the other jurisdictions in which we intend to pursue regulatory approval or clearance is a key element of our strategy. Currently, most oncologists seeking sophisticated gene expression analysis for diagnosing and profiling breast cancer in their patients ship tissue samples to a limited number of centralized laboratories typically located in the United States. We may experience reluctance, or refusal, on the part of physicians to order, and third-party payors to pay for, Prosigna if the results of our research and clinical studies, and our sales and marketing activities relating to communication of these results, do not convey to physicians and patients that Prosigna provides equivalent or better prognostic information than those centralized laboratories. In addition, our diagnostic tests are performed by pathologists in local laboratories, rather than by a vendor in a remote centralized laboratory, which requires us to educate pathologists regarding the benefits of this business model and oncologists regarding the reliability and consistency of results generated locally. Also, we offer Prosigna in other countries outside of the United States, where genomic testing for breast cancer is not widely available and the market for such tests is new. The future growth of the market for genomic breast cancer testing will depend on physicians' acceptance of such testing and the availability of reimbursement for such tests.

These hurdles may make it difficult to convince healthcare providers that tests using our technologies are appropriate options for cancer diagnostics, may be equivalent or superior to available tests, and may be at least as cost effective as alternative technologies. If we fail to successfully commercialize Prosigna on a widespread basis, we may never

receive a return on the significant investments in sales and marketing, medical, regulatory, manufacturing and quality assurance personnel we have made, and further investments we intend to make, which would adversely affect our growth prospects, operating results and financial condition.

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We may not be able to develop new products, enhance the capabilities of our systems to keep pace with rapidly changing technology and customer requirements or successfully manage the transition to new product offerings, any of which could have a material adverse effect on our business and operating results.

Our success depends on our ability to develop new products and applications for our technology in existing and new markets, while improving the performance and cost-effectiveness of our systems. New technologies, techniques or products could emerge that might offer better combinations of price and performance than our current or future products and systems. Existing markets for our products, including gene expression analysis, gene fusions and copy number variation, as well as new markets, such as protein expression and gene mutations, and potential markets for our research and diagnostic product candidates, are characterized by rapid technological change and innovation. Competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. We anticipate that we will face increased competition in the future as existing companies and competitors develop new or improved products and as new companies enter the market with new technologies. It is critical to our success that we anticipate changes in technology and customer requirements and successfully introduce new, enhanced and competitive technologies to meet our customers' and prospective customers' needs on a timely and cost-effective basis. For example, we previously announced that we intend to make GeoMx DSP, which enables the precise quantification of protein and gene expression spatially for regions of interest in a tissue sample, available on an early access basis in late 2018. In addition, we have been developing a unique amplification-free Hyb & Seq chemistry that is intended to provide both short and long read capability simultaneously, as well as the ability to sequence both DNA and RNA in parallel. If we do not successfully innovate and introduce new technology into our product lines, our business and operating results will be adversely impacted.

The development of new products typically requires new scientific discoveries or advancements and complex technology and engineering. Such developments may involve external suppliers and service providers, making the management of development projects complex and subject to risks and uncertainties regarding timing, timely delivery of required components or services and satisfactory technical performance of such components or assembled products. For example, in 2017, we continued to work with our supplier of cartridges used in our nCounter SPRINT systems to improve the design which resolved the previous leakage issues in the microfluidic device produced for us. If we do not achieve the required technical specifications or successfully manage new product development processes, or if development work is not performed according to schedule, then such new technologies or products may be adversely impacted and our business and operating results may be harmed.

Additionally, we must carefully manage the introduction of new products. If customers believe that such products will offer enhanced features or be sold for a more attractive price, they may delay purchases until such products are available. In July 2015, we commercially launched a new version of our nCounter Analysis System, the nCounter SPRINT Profiler, which is smaller and less expensive than the previous version. If customers conclude that such new products offer better value as compared to our existing products, we may suffer from reduced sales of our existing products and our overall revenue may decline. We may also have excess or obsolete inventory of older products as we transition to new products and our experience in managing product transitions is limited. If we do not effectively manage the transitions to new product offerings, our revenue, results of operations and business will be adversely affected.

New market opportunities may not develop as quickly as we expect, limiting our ability to successfully market and sell our products.

The market for our products is new and evolving. Accordingly, we expect the application of our technologies to emerging opportunities will take several years to develop and mature and we cannot be certain that these market opportunities will develop as we expect. For example, in September 2015, we launched our first 3D Biology application, a new product that allows users to simultaneously measure gene and protein expression from a single sample. In 2016 and 2017, we launched additional 3D Biology panels, including our first for the measurement of DNA mutations and in 2017 we launched our 360 panels for use in breast cancer, immuno-oncology and hematology. This year, we intend to expand beyond oncology and launch panels in neuroscience and immune-related diseases. We recently launched our GeoMx DSP product on an early access basis, which will target the pathology market, a market we have not previously targeted.

The future growth of the market for these new products depends on many factors beyond our control, including recognition and acceptance of our applications by the scientific community and the growth, prevalence and costs of competing methods of genomic analysis. If the markets for our new products do not develop as we expect, our business may be adversely affected. If we are not able to successfully market and sell our products or to achieve the revenue or margins we expect, our operating results may be harmed.

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We are dependent on single source suppliers for some of the components and materials used in our products, and the loss of any of these suppliers could harm our business.

We rely on Precision System Science, Co., Ltd of Chiba, Japan, to build our nCounter Prep Station, Korvis LLC of Corvallis, Oregon, to build our nCounter Digital Analyzer and GeoMx DSP, Paramit Corporation of Morgan Hill, California, to build our new nCounter SPRINT Profiler and IDEX Corporation of Lake Forest, Illinois to build the fluidics cartridge, a key component of our nCounter SPRINT Profiler. Each of these contract manufacturers are sole suppliers. Since our contracts with these instrument suppliers do not commit them to carry inventory or make available any particular quantities, they may give other customers' needs higher priority than ours, and we may not be able to obtain adequate supplies in a timely manner or on commercially reasonable terms. We also rely on sole suppliers for various components we use to manufacture our consumable products. We periodically forecast our needs for such components and enter into standard purchase orders with them. If we were to lose such suppliers, there can be no assurance that we will be able to identify or enter into agreements with alternative suppliers on a timely basis on acceptable terms, if at all. If we should encounter delays or difficulties in securing the quality and quantity of materials we require for our products, our supply chain would be interrupted which would adversely affect sales. If any of these events occur, our business and operating results could be harmed.

We may experience manufacturing problems or delays that could limit our growth or adversely affect our operating results.

Our consumable products are manufactured at our Seattle, Washington facility using complex processes, sophisticated equipment and strict adherence to specifications and quality systems procedures. Any unforeseen manufacturing problems, such as contamination of our facility, equipment malfunction, quality issues with components and materials sourced from third-party suppliers or failure to strictly follow procedures or meet specifications, could result in delays or shortfalls in production or require us to voluntarily recall our consumable products. Identifying and resolving the cause of any such manufacturing or supplier issues could require substantial time and resources. If we are unable to keep up with demand for our products by successfully manufacturing and shipping our products in a timely manner, our revenue could be impaired, market acceptance for our products could be adversely affected and our customers might instead purchase our competitors' products.

In addition, the introduction of new products may require the development of new manufacturing processes and procedures. For example, our 3D Biology applications for the simultaneous measurement of gene and protein expression and DNA mutations involve new processes for manufacturing our molecular barcodes. While all of our CodeSets are produced using the same basic processes, significant variations may be required to meet new product specifications. Developing new processes can be very time consuming, and any unexpected difficulty in doing so could delay the introduction of a product.

If our Seattle facilities become unavailable or inoperable, we will be unable to continue our research and development, manufacturing our consumables or processing sales orders, and our business will be harmed.

We manufacture our consumable products in our headquarters facilities in Seattle, Washington. In addition, Seattle is the center for research and development, order processing, receipt of our instruments manufactured by third-party contract manufacturers and shipping products to customers. Our facilities and the equipment we use to manufacture our consumable products would be costly, and would require substantial lead time, to repair or replace. Seattle is situated near active earthquake fault lines. These facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes and power outages, which may render it difficult or impossible for us to produce our products for some period of time. The inability to manufacture consumables or to ship products to customers for even a short period of time may result in the loss of customers or harm our reputation, and we may be unable to regain those customers in the future. Although we possess insurance for damage to our property and the disruption of our business, this insurance, and in particular earthquake insurance, which is limited, may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, if at all.

We expect to generate a substantial portion of our product and service revenue internationally and are subject to various risks relating to our international activities, which could adversely affect our operating results.

For the nine months ended September 30, 2018 and 2017, approximately 39% and 40%, respectively, of our product and service revenue was generated from sales to customers located outside of North America. We believe that a

significant percentage of our future revenue will come from international sources as we expand our overseas operations and develop opportunities in additional areas. Engaging in international business involves a number of difficulties and risks, including:

- required compliance with existing and changing foreign regulatory requirements and laws;
- required compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act and U.K. Bribery Act, data privacy requirements, labor laws and anti-competition regulations;
- export or import restrictions;
- various reimbursement and insurance regimes;

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- laws and business practices favoring local companies;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- political and economic instability, such as the exit of Great Britain from the European Economic Community;
- potentially adverse tax consequences, tariffs, customs charges, bureaucratic requirements and other trade barriers;
- difficulties and costs of staffing and managing foreign operations; and
- difficulties protecting or procuring intellectual property rights.

As we expand internationally, our results of operations and cash flows will become increasingly subject to fluctuations due to changes in foreign currency exchange rates. Historically, most of our revenue has been denominated in U.S. dollars, although we have sold our products and services in local currency outside of the United States, principally the Euro. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United States. As our operations in countries outside of the United States grow, our results of operations and cash flows will increasingly be subject to fluctuations due to changes in foreign currency exchange rates, which could harm our business in the future. For example, if the value of the U.S. dollar increases relative to foreign currencies, our product and service revenue could be adversely affected as we convert revenue from local currencies to U.S. dollars. Similarly, a strong U.S. dollar relative to the local currencies of our international customers can potentially reduce demand for our products, which may compound the adverse effect of foreign exchange translation on our revenue. If we dedicate significant resources to our international operations and are unable to manage these risks effectively, our business, operating results and prospects will suffer.

Significant U.K. or European developments stemming from the U.K.'s referendum on membership in the European Union could have a material adverse effect on us.

In June 2016, the United Kingdom held a referendum and voted in favor of leaving the European Union, and in March 2017, the government of the United Kingdom formally initiated the withdrawal process. This has created political and economic uncertainty, particularly in the United Kingdom and the European Union, and this uncertainty may last for years. Our business in the United Kingdom, the European Union, and worldwide could be affected during this period of uncertainty, and perhaps longer, by the impact of the United Kingdom's referendum. There are many ways in which our business could be affected, only some of which we can identify as of the date of this report.

The decision of the United Kingdom to withdraw from the European Union has caused and, along with events that could occur in the future as a consequence of the United Kingdom's withdrawal, may continue to cause significant volatility in global financial markets, including in global currency and debt markets. This volatility could cause a slowdown in economic activity in the United Kingdom, Europe or globally, which could adversely affect our operating results and growth prospects. In addition, our business could be negatively affected by new trade agreements or data transfer agreements between the United Kingdom and other countries, including the United States, and by the possible imposition of trade or other regulatory and immigration barriers in the United Kingdom. In addition, the Europe-wide market authorization framework for our products (and for the drugs sold by our collaboration partners in the pharmaceutical industry) and access to European Union research funding by research scientists based in the United Kingdom may also change. Furthermore, we currently operate in Europe through a subsidiary based in the United Kingdom, which provides us with certain operational, tax and other benefits, as well as through other subsidiaries in Europe. The United Kingdom's withdrawal from the European Union could adversely affect our ability to realize those benefits and we may incur costs and suffer disruptions in our European operations as a result. These possible negative impacts, and others resulting from the United Kingdom's actual or threatened withdrawal from the European Union, may adversely affect our operating results and growth prospects.

Changes in tax laws or regulations that are applied adversely to us or our customers may have a material adverse effect on our business, cash flow, financial condition or results of operations.

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, which could affect the tax treatment of our domestic and foreign earnings. Any new taxes could adversely affect our domestic and international business operations, and our business and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. For example, the legislation commonly known as the Tax Cut & Jobs Act, which was signed into law on December 22,

2017, significantly revises the Internal Revenue Code of 1986, as amended, or the Code. The newly enacted federal income tax law, among other things, contains significant changes to corporate taxation, including a reduction of the federal statutory rates from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income, elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated,

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elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modifying or repealing many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the new federal tax law is uncertain and our business and financial condition could be adversely affected. It is also unknown if and to what extent various states will conform to the newly enacted federal tax law. The impact of this tax reform on holders of our common stock is likewise uncertain and could be adverse.

Our ability to use net operating losses to offset future taxable income may be subject to certain limitations.

As of December 31, 2017, we had federal net operating loss carryforwards, or NOLs, to offset future taxable income of approximately $232.8 million, which expire in various years beginning in 2025, if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs. In addition, under Section 382 of the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its NOLs to offset future taxable income. We may have already experienced one or more ownership changes. Depending on the timing of any future utilization of our carryforwards, we may be limited as to the amount that can be utilized each year as a result of such previous ownership changes. However, we do not believe such limitations will cause our NOL and credit carryforwards to expire unutilized. In addition, future changes in our stock ownership as well as other changes that may be outside of our control, could result in additional ownership changes under Section 382 of the Code. Our NOLs may also be impaired under similar provisions of state law or limited pursuant to provisions of the recent Tax Cut and Jobs Act amendments to the Code. We have recorded a full valuation allowance related to our NOLs and other deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

Provisions of our debt instruments may restrict our ability to pursue our business strategies.

Our term loan agreement and revolving credit facility require us, and any debt instruments we may enter into in the future may require us, to comply with various covenants that limit our ability to, among other things:

- dispose of assets;
- complete mergers or acquisitions;
- incur indebtedness;
- encumber assets;
- pay dividends or make other distributions to holders of our capital stock;
- make specified investments;
- engage in any new line of business; and
- engage in certain transactions with our affiliates.

These restrictions could inhibit our ability to pursue our business strategies. In addition, we are subject to financial covenants based on total revenue and minimum cash balances. If we default under our term loan agreement or revolving credit facility, and such event of default is not cured or waived, the lenders could terminate commitments to lend and cause all amounts outstanding with respect to the debt to be due and payable immediately, which in turn could result in cross defaults under other debt instruments. Our assets and cash flow may not be sufficient to fully repay borrowings under all of our outstanding debt instruments if some or all of these instruments are accelerated upon a default. We may incur additional indebtedness in the future. The debt instruments governing such indebtedness could contain provisions that are as, or more, restrictive than our existing debt instruments. If we are unable to repay, refinance or restructure our indebtedness when payment is due, the lenders could proceed against the collateral granted to them to secure such indebtedness or force us into bankruptcy or liquidation.

Acquisitions or joint ventures could disrupt our business, cause dilution to our stockholders and otherwise harm our business.

We may acquire other businesses, products or technologies as well as pursue strategic alliances, joint ventures, technology licenses or investments in complementary businesses. We have not made any acquisitions to date, and our ability to do so successfully is unproven. Any of these transactions could be material to our financial condition and operating results and expose us to many risks, including:

- disruption in our relationships with customers, distributors or suppliers as a result of such a transaction;
- unanticipated liabilities related to acquired companies;
- difficulties integrating acquired personnel, technologies and operations into our existing business;

- diversion of management time and focus from operating our business;

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- increases in our expenses and reductions in our cash available for operations and other uses; and
- possible write-offs or impairment charges relating to acquired businesses.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Also, the anticipated benefit of any strategic transaction may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses or write-offs of goodwill, any of which could harm our financial condition. We cannot predict the number, timing or size of future joint ventures or acquisitions, or the effect that any such transactions might have on our operating results.

If we are unable to recruit, train and retain key personnel, we may not achieve our goals.

Our future success depends on our ability to recruit, train, retain and motivate key personnel, including our senior management, research and development, manufacturing and sales and marketing personnel. Competition for qualified personnel is intense, particularly in the Seattle, Washington area. Our growth depends, in particular, on attracting, retaining and motivating highly-trained sales personnel with the necessary scientific background and ability to understand our systems at a technical level to effectively identify and sell to potential new customers. We do not maintain fixed term employment contracts or key man life insurance with any of our employees. Because of the complex and technical nature of our products and the dynamic market in which we compete, any failure to attract, train, retain and motivate qualified personnel could materially harm our operating results and growth prospects.

Undetected errors or defects in our products could harm our reputation, decrease market acceptance of our products or expose us to product liability claims.

Our products may contain undetected errors or defects when first introduced or as new versions are released. Disruptions or other performance problems with our products may damage our customers' businesses, harm our reputation and result in reduced revenues. If that occurs, we may also incur significant costs, the attention of our key personnel could be diverted, or other significant customer relations problems may arise. We may also be subject to warranty and liability claims for damages related to errors or defects in our products. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our products could adversely impact our business and operating results.

The sale and use of products or services based on our technologies, or activities related to our research and clinical studies, could lead to the filing of product liability claims if someone were to allege that one of our products contained a design or manufacturing defect which resulted in the failure to adequately perform the analysis for which it was designed. A product liability claim could result in substantial damages and be costly and time consuming to defend, either of which could materially harm our business or financial condition. We cannot assure investors that our product liability insurance would adequately protect our assets from the financial impact of defending a product liability claim. Any product liability claim brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing insurance coverage in the future.

We face risks related to handling of hazardous materials and other regulations governing environmental safety.

Our operations are subject to complex and stringent environmental, health, safety and other governmental laws and regulations that both public officials and private individuals may seek to enforce. Our activities that are subject to these regulations include, among other things, our use of hazardous materials and the generation, transportation and storage of waste. We could discover that we, an acquired business or our suppliers are not in material compliance with these regulations. Existing laws and regulations may also be revised or reinterpreted, or new laws and regulations may become applicable to us, whether retroactively or prospectively, that may have a negative effect on our business and results of operations. It is also impossible to eliminate completely the risk of accidental environmental contamination or injury to individuals. In such an event, we could be liable for any damages that result, which could adversely affect our business.

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If we experience a significant disruption in our information technology systems or breaches of data security, our business could be adversely affected.

We rely on information technology systems to keep financial records, manage our manufacturing operations, fulfill customer orders, capture laboratory data, maintain corporate records, communicate with staff and external parties and operate other critical functions. Our information technology systems are potentially vulnerable to disruption due to breakdown, malicious intrusion and computer viruses or other disruptive events including but not limited to natural disaster. If we were to experience a prolonged system disruption in our information technology systems or those of certain of our vendors, it could negatively impact our ability to serve our customers, which could adversely impact our business. Although we maintain offsite back-ups of our data, if operations at our facilities were disrupted, it may cause a material disruption in our business if we are not capable of restoring function on an acceptable timeframe. In addition, our information technology systems are potentially vulnerable to data security breaches — whether by employees or others — which may expose sensitive data to unauthorized persons. Such data security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive personal information) of our employees, customers and others, any of which could have a material adverse effect on our business, reputation, financial condition and results of operations. In addition, any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, including state data protection regulations and the E.U. General Data Protection Regulation, or GDPR, and other regulations, the breach of which could result in significant penalties. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above.

We intend to seek strategic collaborations and partnerships and other transactions, which may result in the use of a significant amount of our management resources or significant costs, and we may not be able to fully realize the potential benefit of such transactions.

We intend to seek strategic collaborations and partnerships to support the continued growth of the company. Accordingly, we may be engaged in evaluating potential transactions including, without limitation, strategic partnerships, divestitures of existing businesses or assets, a merger or consolidation with a third party that results in a change in control, a sale or transfer of all or a significant portion of our assets or a purchase by a third party of our securities that may result in a minority or control investment by such third party. From time to time, we may engage in discussions that may result in one or more transactions. Although there would be uncertainty that any of these discussions would result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management resources to such a transaction, which could negatively impact our operations. In addition, we may incur significant costs in connection with seeking strategic transactions regardless of whether the transaction is completed. In the event that we consummate a strategic collaboration or partnership or other transaction in the future, we cannot assure you that we would fully realize the potential benefit of such a transaction which could adversely affect our future financial results or that such transaction would positively impact the value of stockholders' investment in us.

Risks Related to Government Regulation and Diagnostic Product Reimbursement

Our “Research Use Only” products for the research, life sciences market could become subject to more stringent regulatory surveillance as medical devices by the FDA or other regulatory agencies in the future which could increase our costs and delay our commercialization efforts, thereby materially and adversely affecting our business and results of operations.

In the United States, most of our products are currently labeled and sold for Research Use Only, or RUO, and not for the diagnosis or treatment of disease, and are sold to pharmaceutical and biotechnology companies, academic and government institutions and research laboratories. Because such products are not intended for diagnostic use, and the products do not include clinical or diagnostic claims or provide directions to use as diagnostic products, they are not subject to regulation by the Food and Drug Administration, or FDA, as medical devices. In particular, while the FDA regulations require that RUO products be labeled, “For Research Use Only. Not for use in diagnostic procedures,” the regulations do not subject such products to the FDA’s pre- and post-market controls for medical devices. Pursuant to FDA guidance on RUO products, a company may not make clinical or diagnostic claims about an RUO product or

provide clinical directions or clinical support services to customers for RUO products. If the FDA were to modify its approach to regulating products labeled for research use only, it could reduce our revenue or increase our costs and adversely affect our business, prospects, results of operations or financial condition. In the event that the FDA requires marketing authorization of our RUO products in the future, there can be no assurance that the FDA will ultimately grant any clearance or approval requested by us in a timely manner, or at all.

In addition, we sell dual-use instruments with software that has both FDA-cleared functions and research functions, for which FDA approval or clearance is not required. Dual-use instruments are subject to FDA regulation since they are intended, at least in part, for use by customers performing clinical diagnostic testing. In November 2014, FDA issued a guidance document

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that described FDA's approach to regulating molecular diagnostic instruments that combine both approved/cleared device functions and device functions for which approval/clearance is not required. There is a risk that the FDA could take enforcement action against a manufacturer for distributing dual-use instruments if the company does not follow the restrictions discussed in the guidance document. For example, there could be enforcement action if the FDA determines that approval or clearance was required for those functions for which FDA approval or clearance has not been obtained, or the instruments are being promoted for off-label use. There is also a risk that the FDA could broaden its current regulatory enforcement of dual-use instruments through additional FDA oversight of such products or impose additional requirements upon such products. In July 2017, FDA adopted a new regulation exempting certain clinical multiplex test systems, like the ones used with our Prosigna assay, from premarket notification requirements. However, these new regulations will not impact the FDA clearance requirements for our nCounter Dx Analysis System which will still require 510(k) clearance for use with specific assays, such as Prosigna.

If Medicare and other third-party payors in the United States and foreign countries do not approve reimbursement for diagnostic tests enabled by our technology, or revise or rescind reimbursement rates, the commercial success of our diagnostic products would be compromised.

Successful commercialization of our diagnostic products depends, in large part, on the availability of adequate reimbursement for testing services that our diagnostic products enable from government insurance plans, managed care organizations and private insurance plans. There is significant uncertainty surrounding third-party reimbursement for the use of tests that incorporate new technology. For example, after the FDA clearance of Prosigna in September 2013, it took over two years to achieve broad Medicare reimbursement of Prosigna testing.

If we are unable to obtain positive policy decisions from third-party payors approving reimbursement for our tests at adequate levels, the commercial success of our diagnostic products would be compromised and our revenue would be significantly limited. Even if we do obtain reimbursement for our tests, Medicare, Medicaid and other payors may withdraw their coverage policies, cancel their contracts at any time, review and adjust the rate of reimbursement, require co-payments from patients or stop paying for our tests, which would reduce revenue for testing services based on our technology, and indirectly, demand for our diagnostic products. In addition, insurers, including managed care organizations as well as government payors such as Medicare and Medicaid, have increased their efforts to control the cost, utilization and delivery of healthcare services, which may include decreased coverage or reduced reimbursement. From time to time, Congress has considered and implemented changes to the Medicare fee schedules in conjunction with budgetary legislation, and pricing and payment terms, including the possible requirement of a patient co-payment for Medicare beneficiaries for tests covered by Medicare, are subject to change at any time. The Protecting Access to Medicare Act, or PAMA, of 2014 revises the Medicare Clinical Laboratory Fee Schedule, or CLFS, to base prices on commercial payer rates that are reported to the Centers for Medicare and Medicaid Services, or CMS. In June 2016, CMS released the final Clinical Diagnostic Tests Laboratory Payment System regulations, in response to PAMA. The statute applies different reporting and payment requirements to Advanced Diagnostic Laboratory Tests and to Clinical Diagnostic Laboratory Tests, or CDLTs. Under the definitions in the regulations, Prosigna is defined as a CDLT and therefore will be repriced every three years based on a weighted median of commercial payments submitted by labs. As a result, if commercial payment amounts decline, there is a risk that Medicare prices will fall as well, though PAMA limits these reductions to no more than 10% less than the prior year during calendar years 2018-2020 and no more than 15% less during years 2021-2023.

Reductions in the reimbursement rate of third-party payors have also occurred and may occur in the future. For example, in September 2017, CMS published its preliminary determinations of pricing for CDLTs to take effect on January 1, 2018. CMS issued a proposed payment determination that would reduce Medicare reimbursement of Prosigna to our customers from the current rate of $3,443 per test to $508 per test. CMS used a pricing methodology called "crosswalking" pursuant to which a new test such as Prosigna is determined to be similar to an existing test and is assigned the same fee schedule amount as the existing test. CMS recommended crosswalking Prosigna to a colorectal screening test, which has the lowest priced code for advanced diagnostic tests on the fee schedule, despite a recommendation from an advisory panel that it be crosswalked to a different code (0008M). We successfully advocated to CMS to crosswalk Prosigna to the 0008M code category and to restore its current reimbursement level. However, as part of its market-based pricing determinations for 2018 required by PAMA, CMS calculated the

weighted median of commercial payments for laboratory tests. For Prosigna, only one commercial payment rate from a single commercial laboratory was reported which was lower than the current reimbursement price. CMS used that single payment amount as the weighted median which triggered an automatic 10% reduction in Prosigna's Medicare reimbursement rate of $3,443 to $3,099, effective January 1, 2018. There will be subsequent 10% reductions in the Medicare reimbursement rate for Prosigna for each of the calendar years 2019 and 2020. Reductions in the prices at which testing services based on our technology are reimbursed could have a negative impact on our revenue.

In many countries outside of the United States, various coverage, pricing and reimbursement approvals are required. Positive reimbursement decisions for Prosigna have occurred in France, certain regions of Spain, Canada, Israel, Switzerland

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and Denmark, but despite these positive developments, we continue to expect that it will take several years to establish broad coverage and reimbursement for testing services based on our products with most payors in countries outside of the United States, and our efforts may not be successful.

We continue to pursue positive reimbursement and coverage decisions from government insurance plans, managed care organizations and private insurance plans. From time to time, if positive coverage decisions are obtained, we may publicly announce such decisions. In most cases where coverage is denied by a third-party payor, there will be subsequent opportunities to submit additional information or clinical evidence and have such decision reconsidered. We intend to evaluate the benefit of continued pursuit of a positive reimbursement determination on a case by case basis and in most cases expect to continue to pursue a positive coverage decision with those payors based on additional information or subsequent clinical developments; as a result, we do not intend to publicly announce any denials of coverage or the absence of a coverage determination on a regular basis.

Our nCounter-based reagents may be used by clinical laboratories to create Laboratory-Developed Tests (LDT), which could, in the future, be the subject of additional FDA regulation as medical devices, which could materially and adversely affect our business and results of operations.

A clinical laboratory can use our custom-manufactured reagents to create what is called a Laboratory Developed Test, or LDT. LDTs, according to the FDA, are diagnostic tests that are developed, validated and performed by a single laboratory and include genetic tests. Historically, LDTs generally have not been subject to FDA regulations. In October 2014, the FDA issued draft guidance documents proposing the use of a risk-based approach to regulating LDTs. Any restrictions on LDTs by the FDA could decrease demand for our reagents. Additionally, compliance with additional regulatory burdens could be time consuming and costly for our customers. While FDA announced in November 2016 that it did not intend to seek finalization of the draft LDT guidance in the near term, FDA could alter its position or Congress could enact legislation that could result in FDA regulation of some LDTs. To date, draft legislative proposals have been discussed, but no legislation has been introduced. If FDA changed its policy or legislation were enacted, it could adversely affect demand for these specialized reagents or our instruments.

In February 2014, we launched nCounter Elements reagents, a digital molecular barcoding chemistry that allows users to design their own customized assays using standard sets of barcodes provided by us with the laboratories' choice of oligonucleotide probes. These reagents, which will now be offered to customers in the United States through a custom manufacturing service, may be used by laboratories in conjunction with analyte-specific reagents and general purpose reagents to create diagnostic tests or test systems validated within the accredited testing laboratory.

If we are unable to obtain additional regulatory clearances, registrations, or approvals to market Prosigna in additional countries or if regulatory limitations are placed on our diagnostic products, our business and growth will be harmed. In addition, if we do not obtain additional regulatory clearances or approvals necessary to market products other than Prosigna for diagnostic purposes, we will be limited to marketing such products for research use only.

We have received regulatory clearance in the United States under a 510(k) for a version of our first diagnostic product, Prosigna, providing an assessment of a patient's risk of recurrence for breast cancer, and we have obtained a CE mark for Prosigna which permits us to market that assay for diagnostic purposes in the European Union. We do not have regulatory clearance or approval to market in any additional markets, other than Switzerland, Israel, Canada, Turkey, New Zealand, Hong Kong, Australia, Thailand, Argentina, Singapore, and Mexico, or to promote Prosigna in the United States for additional indications. Other than with respect to Prosigna in such jurisdictions, we are limited to marketing our products for research use only, which means that we cannot make diagnostic or clinical claims. We intend to seek regulatory authorizations to market Prosigna in other jurisdictions and, potentially, for other indications. In addition, pursuant to our collaborations with pharmaceutical companies for the development of companion diagnostic tests for use with their drugs, we are responsible for obtaining any regulatory authorizations needed to use the companion diagnostic tests in clinical trials as well as the regulatory approvals to sell the companion diagnostic tests following completion of such trials. For example, we are currently working on submission of a PMA for Lymphmark, a companion diagnostic assay for Revlimid that we have developed in collaboration for Celgene. Some of the compensation we expect to receive pursuant to these collabor