

Invitae Corp  
Form 10-Q  
August 10, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-36847

**Invitae Corporation**

(Exact name of the registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**27-1701898**  
(I.R.S. Employer  
Identification No.)

**458 Brannan Street, San Francisco, California 94107**

(Address of principal executive offices, Zip Code)

**(415) 374-7782**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares of the registrant's Common Stock outstanding as of July 31, 2015 was 31,813,461.



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Table of Contents**PART I Financial Information****ITEM 1. Financial Statements.****INVITAE CORPORATION****Condensed Consolidated Balance Sheets****(In thousands, except share and per share amounts)**

	<b>June 30, 2015 (Unaudited)</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 47,518	\$ 107,027
Marketable securities	123,408	
Prepaid expenses and other current assets	3,149	2,616
Total current assets	174,075	109,643
Property and equipment, net	18,833	15,672
Restricted cash	203	150
Other assets	1,733	3,313
Total assets	\$ 194,844	\$ 128,778
<b>Liabilities, convertible preferred stock, and stockholders' equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 4,046	\$ 2,862
Accrued liabilities	3,636	3,237
Capital lease obligation, current portion	1,757	1,524
Total current liabilities	9,439	7,623
Capital lease obligation, net of current portion	2,371	2,011
Other long-term liabilities	379	401
Liabilities related to early exercise of stock options	8	14
Total liabilities	12,197	10,049
Commitments and contingencies (Note 5)		
Convertible preferred stock, \$0.0001 par value; 0 and 141,131,524 shares authorized, 0 and 141,131,524 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively		202,305
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value; 20,000,000 and 0 shares authorized, no shares issued and outstanding as of June 30, 2015 and December 31, 2014		
Common stock, \$0.0001 par value; 400,000,000 and 160,131,524 shares authorized, 31,812,958 and 944,581 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	4	
Accumulated other comprehensive gain (loss)	4	

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Additional paid-in capital	310,714	1,604
Accumulated deficit	(128,075)	(85,180)
Total stockholders' equity (deficit)	182,647	(83,576)
Total liabilities, convertible preferred stock, and stockholders' equity (deficit)	\$ 194,844	\$ 128,778

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**INVITAE CORPORATION****Condensed Consolidated Statements of Operations****(In thousands, except share and per share amounts)****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenue	\$ 1,801	\$ 301	\$ 3,030	\$ 419
Costs and operating expenses:				
Cost of revenue	3,866	963	7,065	1,574
Research and development	11,837	5,078	20,292	10,043
Selling and marketing	6,189	1,771	10,929	3,437
General and administrative	4,034	3,005	7,474	4,900
Total costs and operating expenses	25,926	10,817	45,760	19,954
Loss from operations	(24,125)	(10,516)	(42,730)	(19,535)
Interest and other income (expense), net	(98)	(6)	(102)	(3)
Interest expense	(35)	(17)	(63)	(34)
Net loss	\$ (24,258)	\$ (10,539)	\$ (42,895)	\$ (19,572)
Net loss per share, basic and diluted	\$ (0.76)	\$ (12.81)	\$ (1.75)	\$ (24.90)
Shares used in computing net loss per share, basic and diluted	31,809,683	822,558	24,477,309	786,006

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents**INVITAE CORPORATION****Condensed Consolidated Statements of Comprehensive Loss****(In thousands)****(Unaudited)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net loss	\$ (24,258)	\$ (10,539)	\$ (42,895)	\$ (19,572)
Other comprehensive income (loss):				
Unrealized gain on available-for-sale marketable securities, net of tax	30		4	
Comprehensive loss	\$ (24,228)	\$ (10,539)	\$ (42,891)	\$ (19,572)

See accompanying notes to unaudited condensed consolidated financial statements.



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## INVITAE CORPORATION

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net loss	\$ (42,895)	\$ (19,572)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,295	967
Stock-based compensation	1,075	324
Amortization of premium on marketable securities	329	
Loss on disposal of assets	15	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(533)	(766)
Other assets	154	(191)
Accounts payable	1,362	(75)
Accrued expenses and other liabilities	(261)	650
Net cash used in operating activities	(38,459)	(18,663)
<b>Cash flows from investing activities:</b>		
Purchase of marketable securities	(165,214)	
Proceeds from sales and maturities of marketable securities	41,481	
Purchases of property and equipment	(3,372)	(2,069)
Change in restricted cash	(53)	(30)
Net cash used in investing activities	(127,158)	(2,099)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock upon initial public offering, net of issuance costs	107,116	
Proceeds from exercise of stock options	63	134
Capital lease principal payments	(1,046)	(403)
Loan agreement financing costs	(25)	
Net cash provided by (used in) financing activities	106,108	(269)
<b>Net decrease in cash and cash equivalents</b>	<b>(59,509)</b>	<b>(21,031)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>107,027</b>	<b>43,070</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 47,518</b>	<b>\$ 22,039</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 64	\$ 17

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**Supplemental cash flow information of non-cash investing and financing activities:**

Conversion of convertible preferred stock to common stock	\$	202,305	\$	
Purchases of property and equipment in accounts payable and accrued liabilities	\$	460	\$	(13)

See accompanying notes to unaudited condensed consolidated financial statements.

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**INVITAE CORPORATION**

**Notes to Condensed Consolidated Financial Statements**

**1. Organization and description of business**

Invitae Corporation (the Company) was incorporated in the state of Delaware on January 13, 2010, as Locus Development, Inc. and changed its name to Invitae Corporation in 2012. The Company utilizes an integrated portfolio of laboratory processes, software tools and informatics capabilities to process DNA-containing samples, analyze information about patient-specific genetic variation and generate test reports for physicians and their patients. The Company has two laboratories: one in San Francisco, California and a second in Santiago, Chile. The Company's current product is an assay of 221 genes that can be used for multiple indications. The test includes multiple genes associated with hereditary cancer, neurological disorders, cardiovascular disorders and other hereditary conditions. The Company operates in one segment.

***Reverse stock split***

In January 2015, the Company's board of directors approved an amendment to the Company's amended and restated certificate of incorporation to effect a reverse split of the Company's issued and outstanding common stock at a 1-for-6 ratio, which was effected on February 9, 2015. The par value and authorized shares of common stock and convertible preferred stock were not adjusted as a result of the reverse split. All issued and outstanding common stock, options to purchase common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect the reverse stock split for all periods presented. The financial statements have also been retroactively adjusted to reflect a proportional adjustment to the conversion ratio for each series of preferred stock that was effected in connection with the reverse stock split.

***Initial public offering***

In February 2015, the Company completed an initial public offering (IPO) of its common stock. In connection with its IPO, the Company sold 7,302,500 shares of common stock at \$16.00 per share for aggregate net proceeds of \$105.7 million after underwriting discounts and commissions and offering expenses payable by the Company. This includes the exercise in full by the underwriters of their option to purchase up to 952,500 additional shares of common stock at the same price to cover over-allotments. Upon the closing of the IPO, all shares of convertible preferred stock then outstanding converted into 23,521,889 shares of common stock.

Upon the effectiveness of the Amended and Restated Certificate of Incorporation of the Company on February 12, 2015, the number of shares of capital stock the Company is authorized to issue was increased to 420,000,000 shares, of which 400,000,000 shares are common stock and 20,000,000 shares are preferred stock. Both the common stock and preferred stock have a par value of \$0.0001 per share. There are no shares of preferred stock outstanding at June 30, 2015.

*Basis of presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The results for the three and six months ended June 30, 2015 are not necessarily indicative of the results expected for the full fiscal year or any other periods.

**2. Summary of significant accounting policies**

*Principles of consolidation*

The Company's unaudited condensed consolidated financial statements have been prepared in conformity with U.S. GAAP. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Table of Contents*Use of estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company believes judgment is involved in determining revenue recognition; the recoverability of long-lived assets; stock-based compensation expense; and income tax uncertainties. The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. Actual results could differ materially from those estimates and assumptions.

*Customer concentration*

Significant customers are those which represent 10% or more of the Company's total revenue for each period presented in the condensed consolidated statements of operations. For each significant customer, revenue as a percentage of total revenue was as follows:

Customers	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Customer A	13%	%	*%	%
Customer B	*	28%	*	20%

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\* Less than 10% of total revenue

*Cash equivalents*

The Company considers all highly liquid marketable securities with original maturities of three months or less from the date of purchase to be cash equivalents. Cash equivalents consist primarily of amounts invested in money market funds and U.S government agency securities.

*Marketable securities*

All marketable securities have been classified as available-for-sale and are carried at estimated fair value as determined based upon quoted market prices or pricing models for similar securities. Management determines the appropriate classification of its marketable securities in debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Short-term marketable securities have maturities less than 365 days as of the balance sheet date. Long-term marketable securities have maturities greater than 365 days as of the balance sheet date. Unrealized gains and losses are excluded from earnings and are reported as a component of other comprehensive income (loss). Realized gains and losses and declines in fair value judged to be other than temporary, if any, on available-for-sale securities are included in interest and other income (expense), net. The cost of securities sold is based on the specific-identification method. Interest on marketable

securities is included in interest and other income (expense), net.

***Restricted cash***

Restricted cash consists of money market funds that serve as collateral for a credit card agreement at one of the Company's financial institutions, and for securing a letter of credit as collateral for the Company's Cambridge Massachusetts facility sublease agreement.

***Internal-use software***

The Company capitalizes third-party costs incurred in the application development stage to design and implement the software used in its tests and in the Invitae Family History Tool mobile application. Costs incurred in the application development stage of the software and the mobile application are capitalized and are amortized over an estimated useful life of three years on a straight line basis.

During the six months ended June 30, 2015 and 2014, the Company capitalized \$750,000 and \$150,000, respectively, of software development costs.

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***Deferred offering costs***

Deferred offering costs, which primarily consist of direct incremental legal, accounting and printer fees relating to the IPO, were initially capitalized. As of December 31, 2014, the Company capitalized \$1.9 million of deferred offering costs in other assets on the consolidated balance sheets. The deferred offering costs were subsequently offset against IPO proceeds upon the closing of the offering in February 2015.

***Fair value of financial instruments***

The Company's financial instruments consist principally of cash and cash equivalents, marketable securities, accounts payable and capital leases. The carrying amounts of certain of these financial instruments, including cash and cash equivalents, and accounts payable, approximate fair value due to their short maturities. Based on borrowing rates available to us, the carrying value of capital leases approximates fair value.

See Note 4, "Fair value measurements" for further information on the fair value of the Company's financial instruments.

***Revenue recognition***

Revenue is generated from the sale of tests that provide analysis and associated interpretation of the sequencing of parts of the genome. Revenue associated with subsequent re-requisition services was de minimis for all periods presented.

Revenue is recognized when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; the fee is fixed or determinable; and collectability is reasonably assured. The criterion for whether the fee is fixed or determinable and whether collectability is reasonably assured are based on management's judgments. When evaluating collectability, in situations where contracted reimbursement coverage does not exist, the Company considers whether the Company has sufficient history to reliably estimate a payor's individual payment patterns. The Company reviews the number of tests paid against the number of tests billed and the payor's outstanding balance for unpaid tests to determine whether payments are being made at a consistently high percentage of tests billed and at appropriate amounts given the amount billed. The Company has not been able to demonstrate a predictable pattern of collectability, and therefore recognizes revenue when payment is received.

***Cost of revenue***

Cost of revenue reflects the aggregate costs incurred in delivering the genetic testing results to physicians and includes expenses for personnel costs including stock-based compensation, materials and supplies, equipment and infrastructure expenses associated with testing and allocated overhead including rent, equipment depreciation and utilities. Costs associated with performing the Company's test are recorded as the test is processed regardless of whether and when revenue is recognized with respect to that test.

*Foreign currency transactions*

The Company uses the U.S. dollar as its functional currency for its subsidiary in Chile. Foreign currency assets and liabilities are remeasured into U.S. dollars using the end of period exchange rates except for nonmonetary assets and liabilities, which are remeasured using historical exchange rates. Expenses are remeasured using an average exchange rate for the respective period. No revenue has been recorded in Chile for the periods presented. Gains or losses from foreign currency transactions are included in interest income and other income (expense), net, in the condensed consolidated statements of operations. Foreign currency transaction gains and losses have not been significant to the condensed consolidated financial statements for all periods presented.

*Net loss per common share*

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted net loss per common share in the periods presented is the same as basic net loss per common share, since the effects of potentially dilutive securities are antidilutive. Common shares subject to repurchase are excluded from the weighted-average shares. At June 30, 2015 and 2014, 12,306 and 40,070 shares subject to repurchase, respectively, are excluded from basic net loss per share calculation.



Table of Contents**Recent accounting pronouncements**

In April, 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 simplifies the presentation of debt issuance costs and requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability instead of as an asset. ASU 2015-03 is effective for annual and interim periods beginning on or after December 15, 2015 and early adoption is permitted. The Company has early adopted ASU 2015-03 in the second quarter of 2015 and the adoption of this standard did not have an impact on the Company's consolidated financial statements.

In May, 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ), which 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 customers. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB voted to approve a deferral of the effective date of this ASU by one year, and to permit entities to adopt up to one year earlier if they choose. Therefore, the new standard will become effective for the Company on January 1, 2018 and early application is permitted for periods beginning on or after January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected an implementation date or a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In August 2014, the FASB issued ASU No. 2014-15 (Subtopic 205- 40), *Presentation of Financial Statements - Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ( ASU 2014-15 ), which provides guidance about management's responsibility to evaluate whether there is substantial doubt about the Company's ability to continue as a going concern and to provide related footnote disclosure. ASU 2014-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early application is permitted. The adoption of this standard is not expected to have an impact on the Company's consolidated financial statements.

**3. Balance sheet components****Cash equivalents and marketable securities**

The following is a summary of cash equivalents and marketable securities (in thousands).

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$ 6,587	\$	\$	\$ 6,587
U.S. treasury notes	2,024	1		2,025
U.S. government agency securities	126,432	11	(8)	126,435
	\$ 135,043	\$ 12	\$ (8)	\$ 135,047
Reported as:				

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Cash equivalents	\$	11,436
Restricted cash		203
Marketable securities		123,408
Total cash equivalents, restricted cash and marketable securities	\$	135,047

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	\$ 15,167	\$	\$	\$ 15,167
	\$ 15,167	\$	\$	\$ 15,167
Reported as:				
Cash equivalents				\$ 15,017
Restricted cash				150
Total cash equivalents and restricted cash				\$ 15,167

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The following table summarizes the available-for-sale securities that were in an unrealized loss position as of June 30, 2015, having been in such a position for less than 12 months, and none having been deemed to be other-than-temporarily impaired (in thousands):

	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency securities	\$ 8	\$ 32,604

None of the available-for-sale securities held as of June 30, 2015 has been in a continuous unrealized loss position for more than one year. As of June 30, 2015, unrealized losses on available-for-sale investments are not attributed to credit risk and are considered to be temporary. The Company believes that it is more-likely-than-not that investments in an unrealized loss position will be held until maturity or the recovery of the cost basis of the investment. To date, the Company has not recorded any impairment charges on marketable securities related to other-than-temporary declines in market value.

At June 30, 2015, the remaining contractual maturities of available-for-sale securities were less than one year. For the three and six months ended June 30, 2015, there were no realized gains or losses on the available-for-sale securities. There were no available-for-sale marketable securities held by the Company at December 31, 2014.

### *Property and equipment, net*

Property and equipment consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Leasehold improvements	\$ 2,522	\$ 1,914
Laboratory equipment	9,450	6,528
Equipment under capital lease	8,224	3,735
Computer equipment	2,238	1,156
Internal-use software	1,551	800
Software	67	31
Furniture and fixtures	198	158
Automobiles	20	
Construction-in-progress	293	4,853
Total property and equipment, gross	24,563	19,175
Accumulated depreciation and amortization	(5,730)	(3,503)
Total property and equipment, net	\$ 18,833	\$ 15,672

Included in the construction-in-progress balance as of December 31, 2014 was \$2.9 million of capital lease equipment that had not been placed in service. This capital lease equipment was placed in service in the first quarter of 2015.

### *Accrued liabilities*

Accrued liabilities consisted of the following (in thousands):

	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Accrued compensation and related expenses	\$ 1,371	\$ 1,439
Accrued costs of equipment	671	
Accrued professional services	148	1,030
Accrued costs for construction-in-progress		32
Other	1,446	736
Total accrued liabilities	\$ 3,636	\$ 3,237

#### 4. Fair value measurements

Financial assets and liabilities are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The authoritative guidance establishes a three-level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether such inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the reporting entity.

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The three-level hierarchy for the inputs to valuation techniques is briefly summarized as follows:

Level 1 Observable inputs such as quoted prices (unadjusted) for identical instruments in active markets.

Level 2 Observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-derived valuations whose significant inputs are observable.

Level 3 Unobservable inputs that reflect the reporting entity's own assumptions.

The following tables set forth the fair value of the Company's consolidated financial instruments that were measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Money market funds	\$ 6,587	\$	\$	\$ 6,587
U.S. treasury notes	2,025			2,025
U.S. government agency securities		126,435		126,435
Total financial assets	\$ 8,612	\$ 126,435	\$	\$ 135,047

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Financial assets:</b>				
Money market funds	\$ 15,167	\$	\$	\$ 15,167
Total financial assets	\$ 15,167	\$	\$	\$ 15,167

The Company's debt securities of U.S. government agency entities are classified as Level 2 as they are valued based upon quoted market prices for similar movements in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Where applicable these models project future cash flows and discount the future amounts to a present value using market-based observable inputs obtained from various third party data providers, including but not limited to, benchmark yields, interest rate curves, reported trades, broker/dealer quotes and reference data.

There were no transfers between Level 1 and Level 2 during the periods presented.

### 5. Commitments and contingencies

*New Leases*

In March 2015, the Company leased additional space in San Francisco and Oakland, California. The leases expire in April and June 2017, respectively. In April 2015 the Company leased additional space in Cambridge, Massachusetts; this lease expires in January 2018. At June 30, 2015, aggregate future minimum lease payments for these facilities are approximately \$2.7 million.

*Guarantees and indemnifications*

As permitted under Delaware law and in accordance with the Company's bylaws, the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is or was serving in such capacity. The maximum amount of potential future indemnification is unlimited; however, the Company maintains director and officer liability insurance. This insurance allows the transfer of the risk associated with the Company's exposure and may enable it to recover a portion of any future amounts paid. The Company believes the fair value of these indemnification agreements is minimal. Accordingly, the Company did not record any liabilities associated with these indemnification agreements as of June 30, 2015 or December 31, 2014.

*Contingencies*

On November 25, 2013, the University of Utah Research Foundation, the Trustees of the University of Pennsylvania, HSC Research and Development Limited Partnership, Endorecherche, Inc. and Myriad Genetics, Inc. (collectively, the Myriad Plaintiffs) filed a complaint in the District of Utah (the Utah Action), alleging that certain of the Company's genetic testing services infringe certain claims of various U.S. Patents (collectively, the Myriad Patents). On November 26, 2013, the Company filed a complaint for declaratory judgment in the Northern District of California (the California Action), asserting that the Myriad Patents are invalid and the Company does not infringe them, and the Myriad Plaintiffs counterclaimed alleging that the Company infringes the Myriad Patents. Although the Utah Action was dismissed, on February 19, 2014, the Judicial Panel on Multidistrict Litigation granted the Myriad Plaintiffs' motion to consolidate for pre-trial proceedings all actions concerning the Myriad Patents (the MDL Proceedings), with the MDL Proceedings taking place in the District of Utah. On January 23, 2015, the Myriad Plaintiffs stipulated to the dismissal with prejudice of all of their claims and granted the Company a covenant not to sue for all of the patents they had asserted against the Company. On January 26, 2015, the court issued an order dismissing the California Action with prejudice, thereby ending the litigation.

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The Company was not a party to any material legal proceedings at June 30, 2015, or at the date of this report. The Company may from time to time become involved in various legal proceedings arising in the ordinary course of business, and the resolution of any such claims could be material.

**6. Stock incentive plans**

*Stock incentive plans*

In 2010, the Company adopted the 2010 Incentive Plan (the 2010 Plan ). The 2010 Plan provides for the granting of stock-based awards to employees, directors, and consultants under terms and provisions established by the Board of Directors. Under the terms of the 2010 Plan, options may be granted at an exercise price not less than fair market value. For employees holding more than 10% of the voting rights of all classes of stock, the exercise prices for incentive and nonstatutory stock options must be at least 110% of fair market of the common stock on the grant date, as determined by the Board of Directors. The terms of options granted under the 2010 Plan may not exceed ten years.

In January 2015, the Company adopted the 2015 Stock Incentive Plan, or the 2015 Plan, which became effective upon the closing of the IPO. The 2015 Plan had 4,370,452 shares of common stock reserved for future issuance at the time of its effectiveness, which included 120,452 shares under the 2010 Plan which were transferred to the 2015 Plan upon effectiveness of the 2015 Plan. The 2015 Plan provides for automatic annual increases in shares available for grant, beginning on January 1, 2016 through January 1, 2025. In addition, shares subject to awards under the 2010 Plan that are forfeited or terminated will be added to the 2015 Plan. The 2015 Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock awards, stock units, stock appreciation rights and other forms of equity compensation, all of which may be granted to employees, including officers, non-employee directors and consultants. Additionally, the 2015 Plan provides for the grant of cash-based awards.

Options granted generally vest over a period of four years. Typically, the vesting schedule for options granted to newly hired employees provides that 1/4 of the grant vests upon the first anniversary of the employee s date of hire, with the remainder of the shares vesting monthly thereafter at a rate of 1/48 of the total shares subject to the option. All other options typically vest in equal monthly installments over the four-year vesting schedule.

*2015 employee stock purchase plan*

In January 2015, the Company adopted the 2015 Employee Stock Purchase Plan (the ESPP ), which became effective upon the closing of the IPO. A total of 325,000 shares of common stock are reserved for issuance under the ESPP. Eligible employees may purchase common stock at 85% of the lesser of the fair market value of common stock on the purchase date or last trading day preceding the offering date. The ESPP provides for automatic annual increases in shares available for grant, beginning on January 1, 2016 through January 1, 2025. The Company determined the initial ESPP purchase period will commence in the fourth quarter of 2015.





Table of Contents*Summary of option activity*

Activity under the 2010 Plan and the 2015 Plan is set forth below (in thousands, except share and per share amounts and years):

	Shares available for grant	Stock options outstanding	Weighted- average exercise price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Balances at December 31, 2014	276,805	1,923,332	\$ 4.37	8.90	\$ 15,946
Additional shares reserved	4,370,452				
Granted	(313,570)	313,570	\$ 12.57		
Cancelled	55,334	(55,334)	\$ 5.44		
Exercised		(32,391)	\$ 1.95		
Balances at June 30, 2015	4,389,021	2,149,177	\$ 5.57	8.57	\$ 19,999
Options exercisable at June 30, 2015		642,739	\$ 2.21	7.67	\$ 8,141
Options vested and expected to vest at June 30, 2015		2,100,574	\$ 5.52	8.56	\$ 19,651

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock for stock options that were in-the-money.

The weighted-average fair value of options to purchase common stock granted was \$9.32 and \$3.02 per share in the six months ended June 30, 2015 and 2014, respectively.

The fair value of options to purchase common stock vested was \$757,000 and \$164,000 in the six months ended June 30, 2015 and 2014, respectively.

The intrinsic value of options to purchase common stock exercised was \$403,000 and \$368,000 in the six months ended June 30, 2015 and 2014, respectively.

*Early exercise of stock options*

The 2010 Plan allows for the granting of options that may be exercised before the options have vested. Shares issued as a result of early exercise that have not vested are subject to repurchase by the Company upon termination of the purchaser's employment or services, at the price paid by the purchaser, and are not deemed to be issued for accounting purposes until those related shares vest. The amounts received in exchange for these shares have been recorded as a liability on the accompanying balance sheets and will be reclassified into common stock and additional paid-in-capital as the shares vest. The Company's right to repurchase these shares generally lapses  $\frac{1}{4}$  after a one-year cliff then at a monthly rate of  $\frac{1}{48}$  thereafter.

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At June 30, 2015 and December 31, 2014, there were 12,306 and 23,903 shares of common stock outstanding, respectively, subject to the Company's right of repurchase at prices ranging from \$0.30 to \$1.26 per share. At June 30, 2015 and December 31, 2014, liabilities associated with shares issued with repurchase rights were \$8,000 and \$14,000, respectively.

### *Stock-based compensation*

The fair value of share-based payments for option granted to employees and directors was estimated on the date of grant using the Black-Scholes option-pricing valuation model based on the following assumptions:

	Three Months Ended June 30,		Six Months Ended June 30,			
	2015	2014	2015	2014	2015	2014
Expected term (in years)	6.03	6.03	6.03	6.03	6.03	6.03
Expected volatility	83.8%	85.7%	83.8%	85.7%	83.8%	88.9%
Risk-free interest rate	1.64%	1.75%	1.28%	1.76%	1.64%	1.91%
Dividend yield						

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Stock-based compensation related to stock options granted to non- employees is recognized as the stock options are earned. The fair value of the stock options granted is calculated at each reporting date using the Black- Scholes option pricing model based on the following assumptions:

	As of June 30,			
	2015		2014	
Expected term (in years)	7.76	9.09	6.03	9.88
Expected volatility	83.8%		85.7	88.9%
Risk-free interest rate	1.86	2.03%	1.62	2.51%
Dividend yield				

The following table summarizes stock-based compensation expense related to stock options for the three and six months ended June 30, 2015 and 2014 included in the condensed consolidated statements of operations (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Cost of revenue	\$	58	\$	18	\$	134	\$	24
Research and development		237		86		450		148
Selling and marketing		135		36		259		55
General and administrative		107		52		232		97
Total stock-based compensation expense	\$	537	\$	192	\$	1,075	\$	324

As of June 30, 2015, unrecognized compensation expense related to unvested options, net of estimated forfeitures, was \$7.0 million, which the Company expects to recognize on a straight-line basis over a weighted- average period of 3.2 years.

### 7. Net loss per common share

The following table presents the calculation of basic and diluted net loss per share for the three and six months ended June 30, 2015 and 2014 (in thousands, except share and per share amounts):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Net loss	\$	(24,258)	\$	(10,539)	\$	(42,895)	\$	(19,572)
Shares used in computing net loss per share, basic and diluted		31,809,683		822,558		24,477,309		786,006
Net loss per share, basic and diluted	\$	(0.76)	\$	(12.81)	\$	(1.75)	\$	(24.90)

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The following outstanding common stock equivalents have been excluded from diluted net loss per share for the three and six months ended June 30, 2015 and 2014 because their inclusion would be anti-dilutive:

	<b>Three and six Months Ended</b>	
	<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>
Shares of common stock subject to outstanding options	2,149,177	1,532,962
Shares of common stock subject to conversion from convertible preferred stock		13,521,920
Shares of common stock subject to unvested early exercise of outstanding options subject to repurchase	12,306	40,074
Total common stock equivalents	2,161,483	15,094,956

Table of Contents**8. Geographic information**

Revenue by country is determined based on the billing address of the customer. The following presents revenue by country for the three and six months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
United States	\$ 968	\$ 152	\$ 1,939	\$ 253
Canada	612	54	738	66
Israel	67	84	106	85
Rest of world	154	11	247	15
Total revenue	\$ 1,801			