Energous Corp
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

OR

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

COMMISSION FILE NUMBER 001-36379

ENERGOUS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**46-1318953**
(State of incorporation)	*(I.R.S. Employer Identification No.)*

3590 North First Street, Suite 210, San Jose, CA 95134

(Address of principal executive office) (Zip code)

(408) 963-0200

(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 þ 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 þ
Non-accelerated filer ¨ (Do not check if 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 þ

As of November 3, 2016, there were 19,130,892 shares of our Common Stock, par value $0.00001 per share, outstanding.

ENERGOUS CORPORATION

FORM 10-Q

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Energous Corporation

CONDENSED BALANCE SHEETS

	As of September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$24,956,255	$ 29,872,564
Accounts receivable	625,000	-
Prepaid expenses and other current assets	1,206,533	722,249
Prepaid rent, current	80,784	80,784
Total current assets	26,868,572	30,675,597
Property and equipment, net	1,960,197	1,730,365
Prepaid rent, non-current	157,648	218,236
Other assets	48,507	51,330
Total assets	$29,034,924	$ 32,675,528
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,273,673	$ 2,324,973
Accrued expenses	1,792,881	1,075,879
Deferred revenue	112,245	-
Total current liabilities	5,178,799	3,400,852
Commitments and contingencies		
Stockholders’ equity		
Preferred Stock, $0.00001 par value, 10,000,000 shares authorized at September 30, 2016 and December 31, 2015; no shares issued or outstanding	-	-
Common Stock, $0.00001 par value, 50,000,000 shares authorized at September 30, 2016 and December 31, 2015; 18,999,193 and 16,298,208 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively.	189	161

Additional paid-in capital	133,769,276	107,981,695
Accumulated deficit	(109,913,340)	(78,707,180)
Total stockholders’ equity	23,856,125	29,274,676
Total liabilities and stockholders’ equity	$29,034,924	$ 32,675,528

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

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Energous Corporation

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended September 30, 2016	2015	For the Nine Months Ended September 30, 2016	2015
Revenue	$ 1,003,973	$ 2,075,000	$ 1,322,155	$ 2,500,000
Operating expenses:				
Research and development	7,944,465	4,758,590	23,080,918	13,008,190
Sales and marketing	736,751	767,762	2,189,995	2,518,114
General and administrative	2,450,778	2,156,965	7,266,843	5,663,583
Total operating expenses	11,131,994	7,683,317	32,537,756	21,189,887
Loss from operations	(10,128,021)	(5,608,317)	(31,215,601)	(18,689,887)
Other income:				
Interest income	2,958	2,656	9,441	12,365
Total	2,958	2,656	9,441	12,365
Net loss	$ (10,125,063)	$ (5,605,661)	$ (31,206,160)	$ (18,677,522)
Basic and diluted loss per common share	$ (0.57)	$ (0.43)	$ (1.83)	$ (1.45)
Weighted average shares outstanding, basic and diluted	17,912,743	13,018,494	17,016,717	12,907,893

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

Energous Corporation

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2016	16,298,208	$ 161	$107,981,695	$(78,707,180)	$29,274,676
Stock-based compensation - stock options	-	-	842,569	-	842,569
Stock-based compensation - restricted stock units ("RSUs")	-	-	3,577,081	-	3,577,081
Stock-based compensation - employee stock purchase plan ("ESPP")	-	-	220,546	-	220,546
Stock-based compensation - performance share units ("PSUs")	-	-	673,405	-	673,405
Stock-based compensation - deferred stock units ("DSUs")	-	-	92,307	-	92,307
Issuance of shares for RSUs	335,836	4	(4)	-	-
Shares repurchased for tax withholdings on vesting of RSUs	(20,669)	-	(266,217)	-	(266,217)
Issuance of shares for PSUs	142,322	1	(1)	-	-
Shares repurchased for tax withholdings on vesting of PSUs	(3,607)	-	(46,463)	-	(46,463)
Exercise of stock options	106,441	1	270,715	-	270,716
Cashless exercise of warrants	474,854	5	(5)	-	-
Shares purchased from contributions to the ESPP	47,685	1	533,004	-	533,005
Issuance of shares and warrants in a private placement, net of issuance costs of $109,340	1,618,123	16	19,890,644	-	19,890,660
Net loss	-	-	-	(31,206,160)	(31,206,160)

Balance, September 30, 2016 (unaudited)	18,999,193	$ 189	$133,769,276	$(109,913,340)	$23,856,125

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

Energous Corporation

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net loss	$ (31,206,160)	$ (18,677,522)
Adjustments to reconcile net loss to:		
Net cash used in operating activities:		
Depreciation and amortization	628,613	617,517
Stock based compensation	5,405,908	4,306,435
Amortization of prepaid rent from stock issuance to landlord	60,588	60,588
Changes in operating assets and liabilities:		
Accounts receivable	(625,000)	(2,000,000)
Prepaid expenses and other current assets	(484,284)	(4,338)
Other assets	2,823	(16,283)
Accounts payable	948,700	58,591
Accrued expenses	717,002	194,945
Deferred revenue	112,245	-
Net cash used in operating activities	(24,439,565)	(15,460,067)
Cash flows used in investing activities:		
Purchases of property and equipment	(858,445)	(732,634)
Net cash used in investing activities	(858,445)	(732,634)
Cash flows from financing activities:		
Net proceeds from issuance of shares to a private investor	19,890,660	-
Proceeds from the exercise of stock options	270,716	25,876
Proceeds from contributions to employee stock purchase plan	533,005	169,811
Shares repurchased for tax withholdings on vesting of RSUs	(266,217)	-
Shares repurchased for tax withholdings on vesting of PSUs	(46,463)	
Proceeds from the disgorgement of short-swing profit	-	12,611
Net cash provided by financing activities	20,381,701	208,298
Net decrease in cash and cash equivalents	(4,916,309)	(15,984,403)
Cash and cash equivalents - beginning	29,872,564	31,494,592
Cash and cash equivalents - ending	$ 24,956,255	$ 15,510,189
Supplemental disclosure of non-cash financing activities:		
Common stock issued for services	$ -	$ 147,900
Common stock issued for RSUs	$ 4	$ 2
Common stock issued for PSUs	$ 1	$ -

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

Note 1 – Business Organization, Nature of Operations

Energous Corporation (the "Company") was incorporated in Delaware on October 30, 2012. The Company is developing a technology called WattUp® that consists of proprietary semiconductor chipsets, software, hardware designs and antennas that can enable RF-based wire-free charging for electronic devices, providing power at a distance and ultimately enabling charging with mobility under full software control. The Company's anticipated business model is to supply silicon components with reference designs and license our WattUp technology to device and chip manufacturers, wireless service providers and other commercial partners to make wire-free charging an affordable, ubiquitous and convenient option for end users. The Company believes its proprietary technology can potentially be utilized in a variety of devices, including wearables, Internet of Things (IoT) devices, smartphones, tablets, e-book readers, keyboards, mice, remote controls, rechargeable lights, cylindrical batteries and any other device with similar charging requirements that would otherwise need a battery or a connection to a power outlet.

The Company is developing solutions that charge electronic devices by surrounding them with a contained three dimensional ("3D") radio frequency ("RF") energy pocket ("RF energy pocket"). The Company is engineering solutions that are expected to enable the wire-free transmission of energy from multiple WattUp transmitters to multiple WattUp receiving devices within a range of up to fifteen (15) feet in radius or in a circular charging envelope of up to thirty (30) feet. The Company is also developing a transmitter technology to seamlessly mesh, (much like a network of WiFi routers) to form a wire-free charging network that will allow users to charge their devices as they walk from room-to-room or throughout a large space. To date, the Company has developed multiple transmitter prototypes in various form factors and power capabilities. The Company has also developed multiple receiver prototypes supporting smartphone battery cases, toys, fitness trackers, Bluetooth headsets, as well as stand-alone receivers.

Note 2 – Liquidity and Management Plans

During the three months and nine months ended September 30, 2016, the Company recorded revenue of $1,003,973 and $1,322,155, respectively, and during the three and nine months ended September 30, 2015, the Company recorded revenue of $2,075,000 and $2,500,000, respectively. During the three months and nine months ended September 30, 2016, the Company recorded a net loss of $10,125,063 and $31,206,160, respectively, and during the three and nine months ended September 30, 2015, the Company recorded a net loss of $5,605,661 and $18,677,522, respectively. Net cash used in operating activities was $24,439,565 and $15,460,067 for the nine months ended September 30, 2016 and 2015, respectively. The Company is currently meeting its liquidity requirements principally through the November 2015 sale of common stock pursuant to a shelf registration, an August 2016 sale of shares to an investor through a private placement and payments received under product development projects entered into with a tier one customer.

As of September 30, 2016, the Company had cash on hand of $24,956,255. On April 24, 2015, the Company filed a "shelf" registration statement on Form S-3, under which the Company may from time to time, sell any combination of debt or equity securities up to an aggregate of $75,000,000. In November 2015, the Company consummated an offering under the shelf registration of 3,000,005 shares of common stock through which the Company raised net proceeds of $19,048,456. In addition, on August 9, 2016, the Company sold 1,618,123 shares of its common stock, and issued a warrant to purchase up to 1,618,123 shares of common stock at an exercise price of $23.00 per share, to Ascend Legend Master Fund, Ltd. in a private placement, raising net proceeds of $19,890,644. The Company expects that cash on hand as of September 30, 2016, together with anticipated revenues, will be sufficient to fund the Company's operations into the fourth quarter of 2017.

Research and development of new technologies is, by its nature, unpredictable. Although the Company will undertake development efforts with commercially reasonable diligence, there can be no assurance that its available resources including the net proceeds from the Company's IPO, secondary offering, shelf registration, and strategic investor financing will be sufficient to enable it to develop and obtain regulatory approval of its technology to the extent needed to create future revenues sufficient to sustain its operations. The Company may choose to pursue additional financing, depending upon the market conditions, which could include follow-on equity offerings, debt financing, co-development agreements or other alternatives. Should the Company choose to pursue additional financing, there is no assurance that the Company would be able to do so on terms that it would find acceptable.

Note 3 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements are presented in U.S. dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), and pursuant to the accounting and disclosure rules and regulations of the U.S. Securities and Exchange Commission (the "SEC").

These unaudited condensed interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the fiscal year ended December 31, 2015 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed with the Securities and Exchange Commission (the "SEC") on March 15, 2016. The accounting policies used in preparing these unaudited condensed interim financial statements are consistent with those described in the December 31, 2015 audited financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements as well as the reported expenses during the reporting periods.

The Company's significant estimates and assumptions include the valuation of stock-based compensation instruments, recognition of revenue, the useful lives of long-lived assets, and income tax expense. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. Although the Company believes that its estimates and assumptions are reasonable, they are based upon information available at the time the estimates and assumptions were made. Actual results could differ from those estimates.

Reclassification

Certain amounts in prior periods have been reclassified to conform to the current period presentation. These reconciliations had no effect on previously reported net loss.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents. The Company maintains cash balances that may be uninsured or in deposit accounts that exceed Federal Deposit Insurance Corporation limits. The Company maintains its cash deposits with major financial institutions.

Revenue Recognition

The Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, services have been rendered, collection of the revenue is reasonably assured, and the fees are fixed or determinable.

The Company records revenue associated with product development projects that it enters into with certain customers. In general, these projects are associated with complex technology development, and as such the Company does not have certainty about its ability to achieve the program milestones. Achievement of the milestone is dependent on our performance and the milestone typically needs to be accepted by the customer. The payment associated with achieving the milestone is generally commensurate with the Company's effort or the value of the deliverable and is nonrefundable. The Company records the expenses related to these projects, generally included in research and development expense, in the periods incurred.

The Company also receives nonrefundable payments, typically at the beginning of a customer relationship, for which there are no milestones. The Company recognizes this revenue ratably over the initial engineering product development period. The Company records the expenses related to these projects, generally included in research and development expense, in the periods incurred.

Note 3 – Summary of Significant Accounting Policies, continued

Research and Development

Research and development expenses are charged to operations as incurred. For internally developed patents, all patent application costs are expensed as incurred as research and development expense. Patent application costs, generally legal costs, are expensed as research and development costs until such time as the future economic benefits of such patents become more certain. The Company incurred research and development costs of $7,944,465 and $4,758,590 for the three months ended September 30, 2016 and 2015, respectively, and the Company incurred research and development costs of $23,080,918 and $13,008,190 for the nine months ended September 30, 2016 and 2015, respectively.

Stock-Based Compensation

The Company accounts for equity instruments issued to employees in accordance with accounting guidance that requires awards to be recorded at their fair value on the date of grant and are amortized over the vesting period of the award. The Company recognizes compensation costs on a straight line basis over the requisite service period of the award, which is typically the vesting term of the equity instrument issued.

On April 10, 2015, the Company's board of directors approved the Energous Corporation Employee Stock Purchase Plan (the "ESPP"), under which 600,000 shares of common stock were reserved for purchase by the Company's employees, subject to approval by the stockholders. On May 21, 2015, the Company's stockholders approved the ESPP. Under the plan, employees may purchase a limited number of shares of the Company's common stock at a 15% discount from the lower of the closing market prices measured on the first and last days of each half-year period. The Company recognizes compensation expense for the fair value of the purchase options, as measured on the grant date.

Income Taxes

Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely to be realized upon settlement. A liability for "unrecognized tax benefits" is recorded for any tax benefits claimed in the Company's tax returns that do not meet these recognition and measurement standards. As of September 30, 2016, no liability for unrecognized tax benefits was required to be reported. The guidance also discusses the classification of related interest and penalties on income taxes. The Company’s policy is to record interest and penalties on uncertain tax positions as a component of income tax expense. No interest or penalties were recorded during the three and nine months ended September 30, 2016 and 2015.

Net (Loss) Income Per Common Share

Basic net loss per share is computed by dividing net loss available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants (using the treasury stock method), the vesting of restricted stock units (“RSUs”) and performance stock units (“PSUs”) and the enrollment of employees in the ESPP. The computation of diluted loss per share excludes potentially dilutive securities of 5,546,269 and 4,807,729 for the three months ended September 30, 2016 and 2015, respectively, and 5,546,269 and 4,807,729 for the nine months ended September 30, 2016 and 2015, respectively, because their inclusion would be antidilutive.

Note 3 – Summary of Significant Accounting Policies, continued

Net (Loss) Income Per Common Share, continued

Potentially dilutive securities outlined in the table below have been excluded from the computation of diluted net loss per share because the effect of their inclusion would have been anti-dilutive.

For the Three Months Ended September 30, 2016	For the Nine Months Ended September 30,