

Energous Corp  
Form 10-Q  
November 09, 2016

**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  
p 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 ☐ No ☐

Edgar Filing: Energous Corp - Form 10-Q

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 ☒ 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 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 ☒

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**

**INDEX**

<u>PART I - FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
<u>Item 3. Quantitative and Qualitative Disclosure About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	31
<u>PART II – OTHER INFORMATION</u>	31
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	31
<u>Item 2. Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities</u>	31
<u>Item 3. Defaults Upon Senior Securities</u>	31
<u>Item 4. Mine Safety Disclosures.</u>	31
<u>Item 5. Other Information</u>	31
<u>Item 6. Exhibits</u>	31

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

**Energous Corporation****CONDENSED BALANCE SHEETS**

	As of September 30, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
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
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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

Edgar Filing: Energous Corp - Form 10-Q

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.

**Energous Corporation****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	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)

Edgar Filing: Energous Corp - Form 10-Q

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,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Consulting Warrant to purchase common stock	-	166,937	-	166,937
Financing Warrant to purchase common stock	13,889	152,778	13,889	152,778
IPO Warrants to purchase common stock	13,200	460,000	13,200	460,000
IR Consulting Warrant	23,250	36,000	23,250	36,000
IR Incentive Warrant	15,000	15,000	15,000	15,000
Warrant issued to private investor	1,618,123	-	1,618,123	-
Options to purchase common stock	1,333,357	1,588,851	1,333,357	1,588,851
RSUs	1,443,529	1,174,990	1,443,529	1,174,990
PSUs	1,070,968	1,213,173	1,070,968	1,213,173
DSUs	14,953	-	14,953	-
Total potentially dilutive securities	5,546,269	4,807,729	5,546,269	4,807,729

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers" (Topic 606), which supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The amendments in the ASU must be applied using one of two retrospective methods and are effective for annual and interim periods beginning after December 15, 2016. On July 9, 2015, the FASB modified ASU 2014-09 to be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. As modified, the FASB permits the adoption of the new revenue standard early, but not before the annual periods beginning after December 15, 2017. A public organization would apply the new revenue standard to all interim reporting periods within the year of adoption. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In August 2014, FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This standard is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. Under U.S. GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting.

The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, U.S. GAAP lacks guidance about management’s responsibility to evaluate whether there is substantial doubt about the organization’s ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The adoption of this standard is not expected to have a material impact on the Company’s financial position and results of operations.

**Note 3 – Summary of Significant Accounting Policies, continued**

***Recent Accounting Pronouncements, continued***

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015. The adoption of this standard did not have a material impact on the Company's financial position and results of operations.

In August 2015, the FASB issued ASU No. 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" – Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015, which clarified the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements. ASU 2015-15 has been adopted concurrently with the adoption of ASU 2015-03. The adoption of this standard did not have a material impact on the Company's financial position and results of operations.

In November 2015, the FASB issued ASU No. 2015-17, "Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The standard requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for fiscal years and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. ASU 2015-17 may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively. The Company is currently evaluating the impact this standard will have on its financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of this new standard will have on its financial statements.

In January 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." ("ASU 2016-02"). This standard requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In

transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this new standard will have on its financial statements.

In March 2016, the FASB issued ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”). ASU No. 2016-08 maintains the core principles of Topic 606 on revenue recognition, but clarifies whether an entity is a principal or an agent in a contract and the appropriate revenue recognition principles under each of these circumstances. The amendments in ASU 2016-08 affect the guidance of ASU 2014-09 which is not yet effective. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation — Stock Compensation (Topic 718) — Improvements to Employee Share-Based Payment Accounting.” ASU No. 2016-09 includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. This ASU includes a requirement that the tax effect related to the settlement of share-based awards be recorded in income tax benefit or expense in the statements of earnings. This change is required to be adopted prospectively in the period of adoption. In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows and these changes are required to be applied retrospectively to all periods presented, or in certain cases prospectively, beginning in the period of adoption. ASU No. 2016-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The Company is currently evaluating the impact the adoption of this new standard will have on its financial statements.

**Note 3 – Summary of Significant Accounting Policies, continued**

***Recent Accounting Pronouncements, continued***

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing.” ASU No. 2016-10 maintains the core principles of Topic 606 on revenue recognition, but clarifies identification of performance obligations and licensing implementation guidance. The amendments in ASU 2016-10 affect the guidance of ASU 2014-09 which is not yet effective. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In May 2016, the FASB issued ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients.” ASU No. 2016-12 maintains the core principles of Topic 606 on revenue recognition, but addresses collectability, sales tax presentation, noncash consideration, contract modifications at transition and completed contracts at transition. The amendments in ASU 2016-12 affect the guidance of ASU 2014-09 which is not yet effective. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments.” ASU No. 2016-13 provides financial statement reader more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The Company will evaluate the effects, if any, that adoption of this guidance will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments.” ASU No. 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. It is effective for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact this standard will have on its financial statements.

***Management’s Evaluation of Subsequent Events***

The Company evaluates events that have occurred after the balance sheet date of September 30, 2016, through the date which the financial statements are issued. Based upon that review, the Company did not identify any subsequent events that would have required adjustment or disclosure in the financial statements, except those described in Note 8 –

Subsequent Events.

#### **Note 4 – Commitments and Contingencies**

##### ***Investor Relations Agreements***

Effective January 13, 2014, the Company entered into an agreement with a vendor (“IR Firm”) to provide investor relations services to the Company. Pursuant to the agreement, in addition to monthly cash compensation of \$8,000 per month, on March 27, 2014 the Company issued to the IR firm a consulting warrant (“IR Consulting Warrant”) for the purchase of 36,000 shares of common stock. The IR Consulting Warrant has a strike price of \$7.80, representing 130% of the IPO price. The IR Consulting Warrant had an initial catch up vesting equivalent to 3,000 shares per month of service, partial months to be prorated on a thirty (30) day basis, from the effective date of this agreement until March 27, 2014. Thereafter, the IR Consulting Warrant vested at a rate of 3,000 shares per month of service. On February 26, 2015, the Company issued to the IR Firm incentive warrants (“IR Incentive Warrants”) to purchase 15,000 shares of common stock with a strike price of \$7.80 based upon certain qualified investors and/or institutional or brokerage firms having purchased at least \$250,000 in value of the Company’s common shares at the IPO price or greater in the open market on or after the 46<sup>th</sup> day following March 27, 2014. All IR Incentive Warrants granted during a six month period will collectively vest at each six month anniversary. Both the IR Consulting Warrant and IR Incentive Warrants will have an expiration date four (4) years from the grant date. The shares underlying both the IR Consulting Warrant and the IR Incentive Warrants may be exercised on a cashless basis if at the time of exercise, such warrant shares have not been registered.

As of March 31, 2015, all 36,000 shares under the IR Consulting Warrant were vested. The Company incurred stock-based compensation expense of \$0 for the three and nine months ended September 30, 2016 and \$0 and \$39,410 for the three and nine months ended September 30, 2015, respectively, in connection with the IR Consulting Warrant, which was included in general and administrative expense.

On February 4, 2015, the Company entered into a six month consulting agreement with a consultant to provide the Company with investor relations services. Compensation under the agreement included the Company’s issuance on February 26, 2015, of 15,000 shares of common stock valued at \$147,900 and monthly cash payments of \$5,000. The total value of the common stock compensation was recorded as a prepaid expense and was being amortized over the six month contract period. The contract was renewed for an additional six month period starting in August 2015 for \$25,000. This initial fee was amortized over the six month renewal period, plus monthly cash payments of \$5,000 were made during the renewal period. The Company incurred amortization expense of \$0 and \$6,250 during the three and nine months ended September 30, 2016, respectively and \$36,975 and \$147,900 during the three and nine months ended September 30, 2015, respectively, which was included in general and administrative expense.

##### ***Operating Leases***

On September 10, 2014, the Company entered into a Lease Agreement (the “Lease”) with Balzer Family Investments, L.P. (the “Landlord”) related to space located at Northpointe Business Center, 3590 North First Street, San Jose, California. The initial term of the lease is 60 months, with initial monthly base rent of \$36,720 and the lease is subject to certain annual escalations as defined in the agreement. On October 1, 2014, the Company relocated its headquarters to this new location. The Company issued to the Landlord 41,563 shares of the Company’s common stock valued at \$500,000, of which \$400,000 will be applied to reduce the Company’s monthly base rent obligation by \$6,732 per month and of which \$100,000 was for certain tenant improvements. The Company recorded \$400,000 as prepaid rent on its balance sheet, which is being amortized over the term of the lease and recorded \$100,000 as leasehold improvements.

On February 26, 2015, the Company entered into a sub-lease agreement for additional space in the San Jose area. The agreement has a term which expires on June 30, 2019 and an initial monthly rent of \$6,109 per month. On August 25, 2015 the Company entered into an additional amended sub-lease agreement for additional space in San Jose, CA. The agreement has a term which expires on June 30, 2019 and an initial monthly rent of \$4,314 per month. These leases are subject to certain annual escalations as defined in the agreements.

On July 9, 2015, the Company entered into a sub-lease agreement for additional space in Costa Mesa, CA. The agreement has a term which expires on September 30, 2017 and a monthly rent of \$6,376 per month.



**Note 4 – Commitments and Contingencies, continued**

***Operating Leases, continued***

The future minimum lease payments for leased locations are as follows:

For the Years Ended December 31,	Amount
2016 (Three Months)	\$137,735
2017	572,722
2018	530,531
2019	372,652
Total	\$1,613,640

***Development and Licensing Agreements***

Effective January 28, 2015, the Company signed a development and licensing agreement with a consumer electronics company to embed WattUp wire-free charging receiver technology in various products including, but not limited to certain mobile consumer electronics and related accessories. During the development phase and through customer shipment of its first product, Energous will afford this customer an exclusive “time to market advantage” in the licensed product categories.

This development and licensing agreement contains both invention and development milestones that the Company will need to achieve during the next two years. Pursuant to the Agreement, on March 23, 2015, the Company received an initial non-refundable payment of \$500,000. During the three months and nine months ended September 30, 2015, the Company recognized \$75,000 and \$500,000, respectively, of this payment as revenue and fully recognized the \$500,000 payment as revenue during the year ended December 31, 2015. The agreement provides for additional amounts to be received by the Company based upon its achievement of certain milestones. During the year ended December 31, 2015, the Company recognized revenue of \$2,000,000 upon the achievement of additional milestones under the agreement.

Effective April 3, 2015, the Company entered into an amendment of the development and license agreement with this consumer electronics company to include joint development of wire-free transmitter technology and technology license back to the Company. On June 5, 2015, the Company entered into a second amendment of the development and license agreement with this consumer electronics company to conform the agreement for technical changes in the

product delivery milestones. Effective October 1, 2015, the Company entered into a third amendment of the development and license agreement with this consumer electronics company to make certain changes to, among other things, intellectual property ownership, payment terms and the products covered by the agreement. On March 31, 2016, the Company received payment of \$500,000 pursuant to the February 15, 2016 commencement of the second phase described in the third amendment, of which the Company recorded \$69,573 and \$387,755 in revenue during the three and nine months ended September 30, 2016, respectively. During the three months ended September 30, 2016, the Company recognized revenue of \$875,000 upon the achievement of additional milestones under the second phase of the agreement.

Effective May 27, 2016, the Company entered into an agreement with a commercial and industrial supply company, under which the Company will develop wire-free charging solutions. Under the first phase of the associated Statement of Work, the Company made certain deliverables for fees totaling \$60,000. The first invoice for \$30,000 was sent to the customer in June 2016 and revenue was initially deferred until completion of the first phase. The second invoice for \$30,000 was issued upon successful completion of the first phase during September 2016 and revenue for the total fees of \$60,000 was then recognized.

**Note 4 – Commitments and Contingencies, continued**

***Hosted Design Solution Agreement***

On June 25, 2015, the Company entered into a three-year agreement to license electronic design automation software in a hosted environment. Pursuant to the agreement, under which services began July 13, 2015, the Company is required to remit quarterly payments in the amount of \$100,568 with the last payment due March 30, 2018. On December 18, 2015, the agreement was amended to redefine the hardware and software configuration and the quarterly payments increased to \$198,105.

***Amended Employee Agreement – Stephen Rizzone***

On April 3, 2015, the Company entered into an Amended and Restated Executive Employment Agreement with Stephen R. Rizzone, the Company's President and Chief Executive Officer (the "Employment Agreement").

The Employment Agreement has an effective date of January 1, 2015 and an initial term of four years (the "Initial Employment Period"). The Employment Agreement provides for an annual base salary of \$365,000, and Mr. Rizzone is eligible to receive quarterly cash bonuses with a total target amount equal to 100% of his base salary based upon achievement of performance-based objectives established by the Company's board of directors.

Pursuant to Mr. Rizzone's prior employment agreement, on December 12, 2013 Mr. Rizzone was granted a ten year option to purchase 275,689 shares of common stock at an exercise price of \$1.68 vesting over four years in 48 monthly installments beginning October 1, 2013 (the "First Option"). Mr. Rizzone was also granted a second option award to purchase 496,546 shares of common stock at an exercise price of \$6.00 (the "Second Option"). The Second Option vests over the same vesting schedule as the First Option.

Effective with the approval on May 21, 2015 by the Company's stockholders of its new performance-based equity plan, the Employment Agreement provided and Mr. Rizzone received, a grant of 639,075 Performance Share Units (the "PSUs"). The PSUs, which represent the right to receive shares of common stock, shall be earned based on the Company's achievement of market capitalization growth between the effective date of the Employment Agreement and the end of the Initial Employment Period. If the Company's market capitalization is \$100 million or less, no PSUs will be earned. If the Company reaches a market capitalization of \$1.1 billion or more, 100% of the PSUs will be earned. For market capitalization between \$100 million and \$1.1 billion, the percentage of PSUs earned will be determined on

a quarterly basis based on straight line interpolation. PSUs earned as of the end of a calendar quarter will be paid 50% immediately and 50% will be deferred until the end of the Initial Employment Period subject to Mr. Rizzone's continued employment with the Company (See Note 6).

Mr. Rizzone is also eligible to receive all customary and usual benefits generally available to senior executives of the Company.

The Employment Agreement provides that if Mr. Rizzone's employment is terminated due to his death or disability, if Mr. Rizzone's employment is terminated by the Company without cause or if he resigns for good reason, twenty-five percent (25%) of the shares subject to the First Option and the Second Option shall immediately vest and become exercisable, he will have a period of one year post-termination to exercise the First Option and the Second Option, and if a Liquidation Event (as defined in the Employment Agreement) shall occur prior to the termination of the First Option and the Second Option, one hundred percent (100%) of the shares subject to the First Option and Second Option shall immediately vest and become exercisable effective immediately prior to the consummation of the Liquidation Event. In addition, any outstanding deferred PSUs shall be immediately vested and paid, but any remaining unearned portion of the PSUs shall immediately be canceled and forfeited.

**Note 4 – Commitments and Contingencies, continued**

***Offer Letter – Brian Sereda***

Effective July 13, 2015, the Company appointed Brian Sereda to serve as Vice President and Chief Financial Officer, replacing Interim Chief Financial Officer Howard Yeaton.

In connection with Mr. Sereda's appointment as Vice President and Chief Financial Officer, the Company and Mr. Sereda executed an offer letter effective July 13, 2015 (the "Sereda Offer Letter"). Under the Sereda Offer Letter, Mr. Sereda will receive an annual base salary of \$250,000 per year, and is eligible to earn an annual performance bonus of up to 75% of his then current base salary in accordance with performance objectives established by the Company's independent compensation committee or the Board of Directors. In addition, under the Sereda Offer Letter and as an inducement to join the Company, Mr. Sereda received an inducement restricted stock unit award covering a total of 120,000 shares of common stock. This restricted stock unit award vests over a period of four years in four equal annual installments on July 13 of each of 2016, 2017, 2018 and 2019, subject to Mr. Sereda's continued employment with the Company through each vesting date.

In the event Mr. Sereda is terminated without cause, he is entitled to (1) six months of his then-current base salary and (2) payment of COBRA premiums for up to six months. In the event of a liquidation event and termination of employment, except for cause, 100% of the inducement award shall immediately vest.

***Patent Infringement Matter***

In June 2016, Ossia Inc. filed two post grant review petitions with the U.S. Patent and Trademark Office ("PTO") challenging the patentability of one of our issued patents. The Company intends to defend against these challenges in the PTO. However, there can be no assurance that this patent will not be invalidated.

**Note 5 – Stockholders' Equity**

***Authorized Capital***

The holders of the Company's common stock are entitled to one vote per share. Holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the board of directors out of legally available funds. Upon the liquidation, dissolution or winding up of the Company, holders of common stock are entitled to share ratably in all assets of the Company that are legally available for distribution.

***Disgorgement of short swing profits***

On April 11, 2015, \$12,611 of proceeds was received from an officer of the Company who had purchased shares in the December 2014 secondary offering representing the disgorgement of a short swing profit on the officer's April 2015 sale of the Company's stock.

***Filing of registration statement***

On April 24, 2015, the Company filed a "shelf" registration statement on Form S-3, which became effective on April 30, 2015. The "shelf" registration statement allows the Company from time to time to sell any combination of debt or equity securities described in the registration statement up to aggregate proceeds of \$75,000,000.

Pursuant to the shelf registration, on November 17, 2015, the Company consummated an offering of 3,000,005 shares of common stock at \$6.90 per share and received from the underwriters' net proceeds of \$19,333,032 (net of underwriters' discount of \$1,242,002 and underwriters' offering expenses of \$125,000). The Company incurred additional offering expenses of \$284,576, yielding net proceeds from the offering under shelf registration of \$19,048,456.

## **Note 6 – Stock Based Compensation**

### ***Private Placement***

On August 9, 2016, the Company entered into a securities purchase agreement with Ascend Legend Master Fund, Ltd., pursuant to which the Company agreed to sell to Ascend Legend Master Fund, Ltd. 1,618,123 shares of common stock at a price of \$12.36 per share and a warrant to purchase up to 1,618,123 shares of common stock at an exercise price of \$23.00 per share.

### ***Equity Incentive Plans***

#### **2013 Equity Incentive Plan**

In December 2013 the Company's board and stockholders approved the "2013 Equity Incentive Plan", providing for the issuance of equity based instruments covering up to an initial total of 1,042,167 shares of common stock.

Effective on March 10, 2014, the Company's board of directors and stockholders approved the First Amendment to the 2013 Equity Incentive Plan which provided for an increase in the aggregate number of shares of common stock that may be issued pursuant to the Plan to equal 18% of the total number of shares of common stock outstanding immediately following the completion of the IPO (assuming for this purpose the issuance of all shares issuable under the Company's equity plans, the conversion into common stock of all outstanding securities that are convertible by their terms into common stock and the exercise of all options and warrants exercisable for shares of common stock and including shares and warrants issued to the underwriters for such IPO upon exercise of its over-allotment options).

Effective March 27, 2014, the aggregate total shares which may be issued under the 2013 Equity Incentive Plan were increased to 2,335,967.

Effective on May 19, 2016, the Company's stockholders approved the amendment and restatement of the 2013 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by 2,150,000 shares, bringing the total number of approved shares to 4,485,967 under the 2013 Equity Incentive Plan.

As of September 30, 2016, 2,421,782 shares of common stock remain eligible to be issued through equity-based instruments under the 2013 Equity Incentive Plan.

#### 2014 Non-Employee Equity Compensation Plan

On March 6, 2014, the Company's board of directors and stockholders approved the 2014 Non-Employee Equity Compensation Plan for the issuance of equity-based instruments covering up to 250,000 shares of common stock to directors and other non-employees.

Effective on May 19, 2016, the Company's stockholders approved the amendment and restatement of the 2014 Equity Incentive Plan to increase the number of shares reserved for issuance thereunder by 350,000 shares, bringing the total number of approved shares to 600,000 under the 2014 Non-Employee Equity Compensation Plan.

As of September 30, 2016, 349,899 shares of common stock remain eligible to be issued through equity-based instruments under the 2014 Non-Employee Equity Compensation Plan.

#### 2015 Performance Share Unit Plan

On April 10, 2015, the Company's board of directors approved the Energous Corporation 2015 Performance Share Unit Plan (the "Performance Share Plan"), under which 1,310,104 shares of common stock became available for issuance as PSUs to a select group of employees and directors, subject to approval by the stockholders. On May 21, 2015 the Company's stockholders approved the Performance Share Plan.

As of September 30, 2016, 31,951 shares of common stock remain eligible to be issued through equity based instruments under the Performance Share Unit Plan.



**Note 6 – Stock Based Compensation, continued*****Equity Incentive Plans, continued*****Employee Stock Purchase Plan**

On April 10, 2015, the Company's board of directors approved the ESPP, under which 600,000 shares of common stock have been 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. Employees may designate an amount not less than 1% but not more than 10% of their annual compensation, but for not more than 7,500 shares during an offering period. An offering period shall be six months in duration commencing on or about January 1 and July 1 of each year. The exercise price of the option will be the lesser of 85% of the fair market of the common stock on the first business day of the offering period and 85% of the fair market value of the common stock on the applicable exercise date.

As of September 30, 2016, 506,292 shares of common stock remain eligible to be issued through equity based instruments under the ESPP. As of September 30, 2016, eligible employees have contributed \$194,325 through payroll withholdings to the ESPP for the current eligibility period. Shares will be deemed to be delivered on December 31, 2016 for the current eligibility period.

***Stock Option Award Activity***

The following is a summary of the Company's stock option activity during the nine months ended September 30, 2016:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life In Years	Intrinsic Value
Outstanding at January 1, 2016	1,487,785	\$ 4.43	8.0	\$5,310,340
Granted	-	-	-	-
Exercised	(106,441 )	2.54	-	-
Forfeited	(47,987 )	2.44	-	-
Outstanding at September 30, 2016	1,333,357	\$ 4.55	7.4	\$20,079,293

Edgar Filing: Energous Corp - Form 10-Q

Exercisable at January 1, 2016	860,970	\$ 4.34	8.0	\$3,076,767
Vested	248,936	4.45	-	-
Exercised	(106,441 )	2.54	-	-
Forfeited	(1,932 )	2.49	-	-
Exercisable at September 30, 2016	1,001,533	\$ 4.56	7.4	\$15,074,220

As of September 30, 2016, the unamortized value of options was \$846,248. As of September 30, 2016, the unamortized portion will be expensed over a weighted average period of 1.0 years.

**Note 6 – Stock Based Compensation, continued**

***Restricted Stock Units (“RSUs”)***

On January 4, 2016, the compensation committee of the board of directors granted to various directors, RSUs under which the holders have the right to receive an aggregate of 26,916 shares of the Company’s common stock. These awards were granted under the 2014 Non-Employee Equity Compensation Plan. The awards granted vest fully on the first anniversary of the grant date.

On January 4, 2016, the compensation committee of the board of directors granted to John Gaulding, director and chairman of the board, RSUs under the 2014 Non-Employee Equity Compensation Plan for which Mr. Gaulding has the right to receive 25,000 shares of the Company’s common stock. These shares were issued to Mr. Gaulding in connection with his role as an independent director and chairman of the Board of Directors. The award granted vests fully on the first anniversary of the grant date.

On February 25, 2016, the compensation committee of the board of directors granted certain employees inducement RSU awards under which the holders have the right to receive an aggregate 38,000 shares of the Company’s common stock. The awards granted vest over four years beginning on the first anniversary of the date of hire.

On March 4, 2016, the compensation committee of the board of directors granted an employee inducement RSU awards under which the holder has the right to receive an aggregate of 12,500 shares of the Company’s common stock. The award granted vests over four years beginning on the first anniversary of the date of hire and is contingent upon meeting certain job performance milestones.

On May 19, 2016, the compensation committee of the board of directors granted certain employees inducement RSU awards under which the holders have the right to receive an aggregate of 126,000 shares of the Company’s common stock. The awards granted vest over four years beginning on the first anniversary of the dates of hire.

On May 19, 2016, the compensation committee of the board of directors granted a consultant an RSU award under the 2013 Equity Incentive Plan for which the holder has the right to receive an aggregate of 3,250 shares of the Company’s common stock. The award granted vests immediately.

## Edgar Filing: Energous Corp - Form 10-Q

On June 10, 2016, the board of directors granted non-employee directors RSU awards under the 2014 Non-Employee Equity Compensation Plan under which the holders have the right to receive an aggregate of 70,040 shares of the Company's common stock. These awards vest annual over three years beginning on June 13, 2017.

The Company accounts for RSUs granted to consultants using the accounting guidance included in ASC 505-50 "Equity-Based Payments to Non-Employees" ("ASC 505-50"). In accordance with ASC 505-50, the Company estimates the fair value of the unvested portion of the RSU award each reporting period using the closing price of the Company's common stock.

At September 30, 2016, the unamortized value of the RSUs was \$10,232,019. The unamortized amount will be expensed over a weighted average period of 2.7 years. A summary of the activity related to RSUs for the nine months ended September 30, 2016 is presented below:

	Total	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2016	1,560,996	\$ 8.83
RSUs granted	303,206	\$ 9.76
RSUs forfeited	(92,637 )	\$ 9.90
RSUs vested	(328,036 )	\$ 9.41
Outstanding at September 30, 2016	1,443,529	\$ 8.82

**Note 6 – Stock Based Compensation, continued*****Performance Share Units (“PSUs”)***

PSUs shall be earned based on the Company’s achievement of market capitalization growth between the effective date of the Employment Agreement and the end of the Initial Employment Period. If the Company’s market capitalization is \$100 million or less, no PSUs will be earned. If the Company reaches a market capitalization of \$1.1 billion or more, 100% of the PSUs will be earned. For market capitalization between \$100 million and \$1.1 billion, the percentage of PSUs earned will be determined on a quarterly basis based on straight line interpolation.

On March 4, 2016, the compensation committee of the board of directors granted an executive inducement PSUs under which the executive is eligible to receive 63,908 shares of the Company’s common stock.

The Company determined that the PSUs were equity awards with both market and service conditions. The Company utilized a Monte Carlo simulation to determine the fair value of the market condition, as described above. Grantees of PSUs are required to be employed through December 31, 2018 in order to earn the entire award, if and when vested.

	Performance Share Units (PSUs) Granted During the Nine Months Ended September 30, 2016		Performance Share Units (PSUs) Granted During the Nine Months Ended September 30, 2015	
Market capitalization	\$ 102,600,000		\$ 106,270,000	
Dividend yield	0	%	0	%
Expected volatility	75	%	60	%
Risk-free interest rate	1.04	%	0.95	%

The fair value of the grant of PSUs to purchase a total of 1,342,061 shares of common stock (including 1,278,153 PSUs granted under the 2015 Performance Share Unit Plan and 63,908 granted as an inducement) was determined to be approximately \$3,217,528, and is amortized over the service period of May 21, 2015 through December 31, 2018, on a straight-line basis. Amortization was \$230,276 and \$277,031 for the three months ended September 30, 2016 and 2015, respectively. Amortization was \$673,405 and \$320,409 for the nine months ended September 30, 2016 and 2015, respectively.

# Edgar Filing: Energous Corp - Form 10-Q

At September 30, 2016, the unamortized value of the PSUs was approximately \$2,054,884. The unamortized amount will be expensed over a weighted average period of 2.3 years. A summary of the activity related to PSUs for the nine months ended September 30, 2016 is presented below:

	Total	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2016	1,135,614	\$ 2.62
PSUs granted	63,908	\$ 3.15
PSUs forfeited	-	\$ -
PSUs vested	(128,554 )	\$ 2.65
Outstanding at September 30, 2016	1,070,968	\$ 2.65

**Note 6 – Stock Based Compensation, continued*****Deferred Stock Units (“DSUs”)***

On January 4, 2016, the compensation committee of the board of directors granted to John Gaulding, director and chairman of the board, DSUs under the 2014 Non-Employee Equity Compensation Plan for which Mr. Gaulding has the right to receive 14,953 shares of the Company’s common stock. These shares were issued to Mr. Gaulding in lieu of \$125,000 of his anticipated compensation for his services on the board, including \$75,000 worth of DSUs and \$50,000 of his regular board stipends. The award granted vests fully on the first anniversary of the grant date. Amortization was \$31,337 and \$0 for the three months ended September 30, 2016 and 2015, respectively. Amortization was \$92,307 and \$0 for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016, the unamortized value of the DSUs was \$32,700. The unamortized amount will be expensed over a weighted average period of 0.3 years. A summary of the activity related to DSUs for the nine months ended September 30, 2016 is presented below:

	Total	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2016	-	\$ -
DSUs granted	14,953	\$ 8.36
DSUs forfeited	-	\$ -
DSUs vested	-	\$ -
Outstanding at September 30, 2016	14,953	\$ 8.36

***Employee Stock Purchase Plan (“ESPP”)***

The recently completed offering period for the ESPP was January 1, 2016 through June 30, 2016. The current offering period began July 1, 2016 and runs through December 31, 2016.

The weighted-average grant-date fair value of the purchase option for each designated share purchased under this plan was approximately \$2.57 for the recently completed offering period and is approximately \$5.20 for the current offering period, which represents the fair value of the option, consisting of three main components: (i) the value of the

discount on the enrollment date, (ii) the proportionate value of the call option for 85% of the stock and (iii) the proportionate value of the put option for 15% of the stock. The Company recognized compensation expense for the plan of \$97,830 and \$220,546 for the three and nine months ended September 30, 2016, respectively, and the Company recognized compensation expense for the plan of \$29,967 during the three and nine months ended September 30, 2015.

The Company estimated the fair value of options granted during the three and nine months ended September 30, 2016 using the Black-Scholes option pricing model. The fair values of stock options granted were estimated using the following assumptions:

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
Stock price	\$ 12.16		\$8.36 - \$12.16	
Dividend yield	0	%	0	%
Expected volatility	100	%	56% - 100	%
Risk-free interest rate	0.37	%	0.37% - 0.49	%
Expected life	6 months		6 months	



**Note 6 – Stock Based Compensation, continued**

The following tables summarize total stock-based compensation costs recognized for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options	\$296,272	\$232,286	\$842,569	\$724,708
RSUs	1,204,982	968,385	3,577,081	3,145,520
IR warrants	-	-	-	85,831
PSUs	230,276	277,031	673,405	320,409
ESPP	97,830	29,967	220,546	29,967
DSUs	31,337	-	92,307	-
Total	\$1,860,697	\$1,507,669	\$5,405,908	\$4,306,435

The total amount of stock-based compensation was reflected within the statements of operations as:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Research and development	\$960,362	\$582,320	\$2,628,454	\$2,116,631
Sales and marketing	89,072	185,507	213,842	516,377
General and administrative	811,263	739,842	2,563,612	1,673,427
Total	\$1,860,697	\$1,507,669	\$5,405,908	\$4,306,435

**Note 7 – Related Party**

On July 14, 2014, the Company's Board of Directors appointed Howard Yeaton as the Company's Interim Chief Financial Officer. On July 13, 2015, the Company appointed Brian Sereda as the Company's Chief Financial Officer (See Note 4), replacing Interim Chief Financial Officer Howard Yeaton. Howard Yeaton is the Managing Principal of Financial Consulting Strategies LLC ("FCS"). During the three and nine months ended September 30, 2016, the Company incurred no fees to FCS in connection with Mr. Yeaton's services as Interim Chief Financial Officer. During the three and nine months ended September 30, 2015, the Company incurred fees of \$2,500 and \$61,848, respectively, in connection with Mr. Yeaton's services as Interim Chief Financial Officer. During the three and nine months ended September 30, 2016, the Company incurred \$0 and \$13,306, respectively, in fees for other financial advisory and accounting services provided by FCS. During the three and nine months ended September 30, 2015, the Company

incurred fees of \$28,405 and \$67,751, respectively, in fees for other financial advisory and accounting services provided by FCS.

## **Note 8 – Subsequent Events**

### ***Strategic Alliance Agreement***

On November 7, 2016, Energous Corporation (the “Company”) and Dialog Semiconductor plc (“Dialog”) entered into a Strategic Alliance Agreement (“Alliance Agreement”) for the manufacture, distribution and commercialization of products incorporating the Company’s wire-free charging technology (“Licensed Products”). Pursuant to the terms of the Strategic Alliance Agreement, the Company agreed to engage Dialog as the exclusive supplier of the Licensed Products for specified fields of use, subject to certain exceptions (the “Company Exclusivity Requirement”). Dialog agreed to not distribute, sell or work with any third party to develop any competing products without the Company’s approval (the “Dialog Exclusivity Requirement”). In addition, both parties agreed on a revenue sharing arrangement and will collaborate on the commercialization of Licensed Products based on a mutually-agreed upon plan. Each party will retain all of its intellectual property.

**Note 8 – Subsequent Events, continued**

***Strategic Alliance Agreement, continued***

The Alliance Agreement has an initial term of seven years and will automatically renew annually thereafter unless terminated by either party upon 180 days' prior written notice. The Company may terminate the Alliance Agreement at any time after the third anniversary of the Agreement upon 180 days' prior written notice to Dialog, or if Dialog breaches certain exclusivity obligations. Dialog may terminate the Agreement if sales of Licensed Products do not meet specified targets. The Company Exclusivity Requirement will terminate upon the earlier of January 1, 2021 or the occurrence of certain events relating to the Company's pre-existing exclusivity obligations. The Dialog Exclusivity Requirement will terminate if no Licensed Products have received the necessary Federal Communications Commission approvals within specified timeframes.

***Securities Purchase Agreement***

In connection with the Alliance Agreement, on November 7, 2016, the Company and Dialog entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") pursuant to which the Company agreed to sell to Dialog 763,552 shares ("Shares") of the Company's common stock ("Common Stock") and a warrant ("Warrant") to purchase up to 763,552 shares ("Warrant Shares") of Common Stock for an aggregate purchase price of \$10,000,011.00. The Warrant may only be exercised on a cashless basis at a price of \$17.0257 per share, and may be exercised at any time between the date that is six months and a day after the closing date of the transaction (the "Closing Date") and the three-year anniversary of the Closing Date.

The Securities Purchase Agreement also provides that, until the earlier of (i) the three-year anniversary of the Closing Date or (ii) the effective date of termination of the Alliance Agreement (the "Voting Period"), Dialog and its affiliates agreed to vote all of their shares of Common Stock in the manner recommended by the Company's board of directors (the "Board"), with specified exceptions. In elections of Board members, Dialog and its affiliates are obligated to vote their shares in favor of individuals recommended by the Board for election. During the Voting Period, Dialog and its affiliates may not acquire any additional voting securities of the Company other than Warrant Shares without consent of the Board. Dialog also agreed to restrictions on its ability to seek to control the management. Dialog will not sell, transfer or otherwise dispose of the Shares for a period of six months after the closing of the transaction, and agreed not to sell more than a specified amount in any calendar week through the end of the Voting Period. The Company agreed to file registration statements registering the Dialog's re-offer and resale of the Shares and the Warrant Shares under certain circumstances.

*New Equity Award Grants*

On October 24, 2016, the board of directors granted Stephen Rizzone, the Company's President, Chief Executive Officer and Director an RSU award under the 2013 Equity Incentive Plan under which Mr. Rizzone has the right to receive 150,000 shares of the Company's common stock. The shares of this award vest over four years beginning on August 18, 2017. Also, on October 24, 2016, the compensation committee of the board of directors granted Mr. Rizzone a PSU award under the 2013 Equity Incentive Plan under which Mr. Rizzone has the right to receive 150,000 shares of the Company's common stock. The shares of this award vest upon the Company's stock price meeting specific targets.

On October 24, 2016, the compensation committee of the board of directors approved an RSU award for Brian Sereda, Chief Financial Officer, covering a total of 45,000 shares of common stock. This restricted stock unit award vests over a period of four years in four equal installments on August 18 of each of 2017, 2018, 2019 and 2020.

On October 24, 2016, the compensation committee of the board of directors granted certain employees inducement RSU awards under which the holders have the right to receive an aggregate of 97,500 shares of the Company's common stock. The awards granted vest over four years beginning on the first anniversary of the dates of hire.

On October 24, 2016, the compensation committee of the board of directors granted various employees RSU awards under which the holders have the right to receive an aggregate of 320,400 shares of the Company's common stock. These awards vest over a period of four years in four equal installments on August 18 of each of 2017, 2018, 2019 and 2020.

On October 24, 2016, the compensation committee of the board of directors granted Cesar Johnston, Senior Vice President of Engineering, an RSU award under which Mr. Johnston has the right to receive 85,000 shares of the Company's common stock. A total of 25% of the shares vest immediately upon grant, while the remaining shares vest annually over three years beginning August 18, 2017.

On October 24, 2016, the compensation committee of the board of directors granted Michael Leabman, Founder, Chief Technology Officer and Director, an RSU award under which Mr. Leabman has the right to receive 100,000 shares of the Company's common stock. This restricted stock unit award vests over a period of four years in four equal installments on August 18 of each of 2017, 2018, 2019 and 2020.

**Note 8 – Subsequent Events, Continued**

***New Equity Award Grants, continued***

On October 24, 2016, the compensation committee of the board of directors granted certain employees inducement RSU awards under which the holders have the right to receive an aggregate of 23,750 shares of the Company's common stock. The issuance of these awards is subject to employment with the Company on the first anniversary of their hire date. The awards will vest of four years beginning on the second anniversary of the dates of hire.

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

### Forward-Looking Statements

As used in this Form 10-Q, unless the context otherwise requires the terms “we,” “us,” “our,” and “Energous” refer to Energous Corporation, a Delaware corporation. This Quarterly Report on Form 10-Q contains 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, that are intended to be covered by the “safe harbor” created by those sections. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, can generally be identified by the use of forward-looking terms such as “believe,” “expect,” “may,” “will,” “should,” “could,” “seek,” “intend,” “plan,” “estimate,” “anticipate” or other comparable terms. All statements other than statements of historical facts included in this Quarterly Report on Form 10-Q regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are forward-looking statements. Examples of forward-looking statements include, among others, statements we make regarding expectations for revenues, cash flows and financial performance, the anticipated results of our development efforts and the timing for receipt of required regulatory approvals and product launches. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following: our ability to develop a commercially feasible technology; receipt of necessary regulatory approvals; our ability to find and maintain development partners, market acceptance of our technology, the amount and nature of competition in our industry; our ability to protect our intellectual property; and the other risks and uncertainties described in the Risk Factors and in Management's Discussion and Analysis of Financial Condition and Results of Operations sections of this Quarterly Report on Form 10-Q and our most recently filed Annual Report on Form 10-K and any subsequently filed Quarterly Reports on Form 10-Q. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

### Overview

We are 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. Our 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. We believe our 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.

We believe our technology is novel in its approach, in that we are developing a solution that charges electronic devices by surrounding them with a contained three dimensional (“3D”) radio frequency (“RF”) energy pocket (“RF energy pocket”). We are engineering solutions that we expect 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. We are also developing our 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, we have developed multiple transmitter prototypes in various form factors and power capabilities. We have also developed multiple receiver prototypes supporting smartphone battery cases, toys, fitness trackers, Bluetooth headsets, as well as stand-alone receivers.

From the beginning we recognized the need to build and design an enterprise-class network management and control system (“NMS”) that was integral to the architecture and development of our wire-free charging technology. Our NMS system can be scaled up to control an enterprise consisting of thousands of devices or scaled down to work in a home or IoT environment.

The power, distance and mobility capabilities of the WattUp technology were validated independently by Underwriters Laboratories (UL) in October 2015 and the results published in November 2015.

Our technology solution consists principally of transmitter and receiver application specific standard product integrated circuits (“ASSPs”) and novel antenna designs driven through innovative algorithms and software applications. We submitted our first ASSP design for wafer fabrication in November 2013 and have since then been developing multiple generations of transmitter and receiver ASSPs, multiple antenna designs, as well as algorithms and software designs that we believe, in the aggregate, will optimize our technology by reducing size and cost, while increasing performance to a level that will enable our technology to be integrated into a broad spectrum of devices. We have developed a “building block” approach which allows us to scale our product implementations by combining multiple transmitter building blocks and/or multiple receiver building blocks to provide the power, distance, size and cost performance necessary to meet various application requirements. While the technology is very scalable, in order to provide the necessary strategic focus to grow the company effectively, we have defined our market as devices that require 10 watts or less of power to charge. We will continue to invest in ASSP development as well as in the other components of the WattUp system to improve product performance, efficiency, cost-performance and miniaturization as required to grow the business and expand the ecosystem while also distancing us from any potential competition.

We believe that if our development, regulatory and commercialization efforts are successful, our transmitter and receiver technology will support a broad spectrum of charging solutions ranging from contact-based charging or charging at distances of no more than a few centimeters (“nearfield”) to charging at distances of up to 15 feet (“farfield”).

In February 2015 we signed a Development and License Agreement with one of the top consumer electronic companies in the world based on total worldwide revenues. The agreement is milestone-based and, while there are no guarantees that the WattUp® technology will ever be integrated into our strategic partner’s consumer devices, we continue to progress the relationship as evidenced by the achievement of our first revenues in late 2015 from engineering services resulting from the achievement of certain milestones under the agreement. We anticipate continued progress with the relationship which we expect will result in additional engineering services revenue and ultimately, if fully executed, significant revenues from royalties based on the WattUp® technology being integrated into products being shipped to the consumer.

In January 2016 we unveiled a new Miniature WattUp Transmitter design, as well as a small form factor receiver, both of which were developed as a direct result of our efforts to reduce cost and size. Due to its low cost and small size, the miniature transmitter is anticipated to be bundled in-box with WattUp-enabled receivers replacing alternative charging solutions like power adapters and charging cables. The ability to bundle and provide a low cost, portable charging solution for receivers provides portability to the WattUp solution and is anticipated to accelerate the ecosystem build out.



In February 2016 we began delivering Miniature WattUp evaluation kits to potential licensees to allow their respective engineering and product management departments to test and evaluate our technology. We expect that the testing and evaluations currently taking place will lead to an expansion of our licensing partners and will result in products with our nearfield technology embedded beginning to be shipped to the consumer in late 2016 or early 2017. In May 2016 our Miniature WattUp transmitter reference design received FCC approval.

In March 2016 we entered into a development agreement with Pegatron, a worldwide leader in electronic and computing design and manufacturing service (DMS), in April 2016 we entered into a joint development and licensing agreement with a specialty battery company in the hearing devices and wearables market and in May 2016 we entered into a joint development and licensing agreement with a leading commercial and industrial supply company for industrial and commercial applications for the full-size WattUp transmitter.

We have implemented an aggressive intellectual property strategy and are continuing to pursue patent protection for new innovations. As of September 30, 2016, we had in excess of 250 pending patent applications in the US and abroad. Additionally, the U.S. Patent and Trademark Office (“PTO”) has issued our first nine patents and notified us of the allowance of seven additional patent applications. In June 2016, Ossia Inc. filed two post grant review petitions with the PTO challenging the patentability of one of our issued patents. We intend to defend against these challenges in the PTO. However, there can be no assurance that this patent will not be invalidated. In addition to the inventions covered by these patents and patent applications, we have identified a significant number of additional specific inventions we believe are novel and patentable. We intend to file for patent protection for the most valuable of these, as well as for other new inventions that we expect to develop. Our strategy is to continually monitor the costs and benefits of each patent application and pursue those that will best protect our business and expand the core value of the Company.

We have recruited and hired a seasoned management team with both private and public company experience and relevant industry experience to develop and execute our operating plan. In addition, we have identified and hired key engineering resources in the areas of ASSP development, antenna development, hardware, software and firmware engineering as well as integration and testing which will allow us to continue to expand our technology and intellectual property as well as meet the support requirements of our licensees.

### ***Critical Accounting Policies and Estimates***

#### ***Revenue Recognition***

We recognize 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.

We record revenue associated with product development projects that we enter into with certain customers. In general, these projects are associated with complex technology development, and as such we do not have certainty about our 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 our effort or the value of the deliverable and is nonrefundable. We record the expenses related to these projects, generally included in research and development expense, in the periods incurred.

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

During the three months ended September 30, 2016 and 2015, we recorded revenue of \$1,003,973 and \$2,075,000, respectively. During the nine months ended September 30, 2016 and 2015, we recorded revenue of \$1,322,155 and \$2,500,000, respectively.

### ***Results of Operations***

***Three Months Ended September 30, 2016 and 2015***

*Revenues.* During the three months ended September 30, 2016 and 2015, we recorded revenue of \$1,003,973 and \$2,075,000, respectively.

*Operating Expenses and Loss from Operations.* Operating expenses are made up of research and development, sales and marketing and general and administrative expenses. Loss from operations for the three months ended September 30, 2016 and 2015 were \$10,128,021 and \$5,608,317, respectively.

*Research and Development Costs.* Research and development costs, which include costs for developing our technology, were \$7,944,465 and \$4,758,590, respectively, for the three months ended September 30, 2016 and 2015. The increase in research and development costs of \$3,185,875 is primarily due to a \$1,137,953 increase in compensation, including a \$378,041 increase in stock-based compensation, an \$868,558 increase in chip development costs tied to our multi-chip development program, a \$313,454 increase in engineering consulting costs, a \$565,778 increase in patent filing and legal costs tied to our portfolio of over 250 domestic and international filings and a \$190,376 increase in design tools software spending.

*Sales and Marketing Costs.* Sales and marketing costs for the three months ended September 30, 2016 and 2015 were \$736,751 and \$767,762, respectively. The decrease in sales and marketing costs of \$31,011 is primarily due to a decrease of \$96,436 in stock-based compensation which is primarily due to the resignation of the Chief Commercial Officer during 2015 and a \$35,635 decrease in consulting costs which is a result of employees now performing certain marketing duties previously performed by consultants, partially offset by minor increases in recruiting, travel and tradeshow expenses.

*General and Administrative Expenses.* General and administrative expenses include costs for general and corporate functions, including facility fees, travel, telecommunications, insurance, professional fees, consulting fees and other overhead. General and administrative costs for the three months ended September 30, 2016 and 2015 were \$2,450,778 and \$2,156,965, respectively. The increase in general administrative costs of \$293,813 is primarily due to a \$178,570 increase in compensation, including stock-based compensation of \$71,421, attributable in part to increased headcount within the department, a \$132,835 increase in legal and accounting expenses and a \$127,247 increase in telecommunications costs from servicing a larger staff and increased video conferencing costs, partially offset by a \$109,371 decrease in consulting costs which is a result of employees now performing duties previously performed by consultants.

*Interest Income, Net.* Interest income for the three months ended September 30, 2016 was \$2,958 as compared to interest income of \$2,656 for the three months ended September 30, 2015.

*Net Loss.* As a result of the above, net loss for the three months ended September 30, 2016 was \$10,125,063 as compared to \$5,605,661 for the three months ended September 30, 2015.

#### ***Nine Months Ended September 30, 2016 and 2015***

*Revenues.* During the nine months ended September, 2016 and 2015, we recorded revenue of \$1,322,155 and \$2,500,000, respectively.

*Operating Expenses and Loss from Operations.* Operating expenses are made up of research and development, sales and marketing and general and administrative expenses. Loss from operations for the nine months ended September 30, 2016 and 2015 were \$31,215,601 and \$18,689,887, respectively.

*Research and Development Costs.* Research and development costs, which include costs for developing our technology, were \$23,080,918 and \$13,008,190, respectively, for the nine months ended September 30, 2016 and 2015. The increase in research and development costs of \$10,072,728 is primarily due to a \$2,956,158 increase in compensation from increased engineering headcount within the department, including \$511,823 in stock-based compensation, a \$3,327,528 increase in chip design costs tied to our multi-chip development effort, a \$1,357,833 increase in patent filing and legal costs tied to our portfolio of over 250 domestic and international filings, a \$739,439 increase in software spending, primarily from our hosted design solution package and a \$557,140 increase in consulting fees, primarily from additional assistance in quality assurance engineering.

*Sales and Marketing Costs.* Sales and marketing costs for the nine months ended September 30, 2016 and 2015 were \$2,189,995 and \$2,518,114, respectively. The decrease in sales and marketing costs of \$328,119 is primarily due to a decrease of \$321,140 in compensation, including a decrease in stock-based compensation of \$302,535, primarily due to the resignation of the Chief Commercial Officer in October 2015.

*General and Administrative Expenses.* General and administrative expenses include costs for general and corporate functions, including facility fees, travel, telecommunications, insurance, professional fees, consulting fees and other overhead. General and administrative costs for the nine months ended September 30, 2016 and 2015 were \$7,266,843 and \$5,663,583, respectively. The increase in general administrative costs of \$1,603,260 is primarily due to a \$1,190,897 increase in compensation, including an increase in stock-based compensation of \$890,185, attributable in part to increased headcount within the department, including the CFO position now being filled, and recognition of a full nine months of the CEOs RSU agreement during 2016, a \$282,591 increase in telecommunications and supplies expense in order to accommodate a larger corporate staff and a \$158,943 increase in legal and accounting fees.

*Interest Income, Net.* Interest income for the nine months ended September 30, 2016 was \$9,441 as compared to interest income of \$12,365 for the nine months ended September 30, 2015. The change in interest income is primarily due to a lower average cash balance during the nine months ended September 30, 2016.

*Net Loss.* As a result of the above, net loss for the nine months ended September 30, 2016 was \$31,206,160 as compared to \$18,677,522 for the nine months ended September 30, 2015.

### *Liquidity and Capital Resources*

During the three months ended September 30, 2016 and 2015, we recorded revenue of \$1,003,973 and \$2,075,000, respectively. During the nine months ended September 30, 2016 and 2015, we recorded revenue of \$1,322,155 and \$2,500,000, respectively. We incurred a net loss of \$10,125,063 and \$5,605,661 for the three months ended September 30, 2016 and 2015, respectively. We incurred a net loss of \$31,206,160 and \$18,677,522 for the nine months ended September 30, 2016 and 2015, 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 proceeds from the November 2015 sale of common stock pursuant to a shelf registration statement, proceeds from an investor through a private sale of common stock and payments received under product development projects entered into with a customer.

As of September 30, 2016, we had cash and cash equivalents of \$24,956,255.

We believe our current cash on hand, together with anticipated payments received under current and future product development projects entered into with customers, will be sufficient to fund our operations into the fourth quarter of 2017. However, depending on how soon we are able to achieve meaningful commercial revenues, we may require additional financing to fully implement our business plan, the ultimate goal of which is to license our technology to device manufacturers, wireless service providers and other commercial partners to make wire-free charging an affordable, ubiquitous and convenient option for end users. Potential financing sources could include follow-on equity offerings, debt financing, co-development agreements or other alternatives. Depending upon market conditions, we may choose to pursue additional financing to, among other reasons, accelerate our product development efforts, regulatory activities and business development and support functions with a view to capitalizing on the market opportunity we see for our wire-free charging technology. On April 24, 2015, we filed a “shelf” registration statement on Form S-3, which became effective on April 30, 2015. The “shelf” registration statement allows the Company from time to time to sell any combination of debt or equity securities described in the registration statement up to aggregate proceeds 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 August 2016, the Company sold shares in a private placement in which the Company raised net proceeds of \$19,890,644.

During the nine months ended September 30, 2016, cash flows used in operating activities were \$24,439,565, consisting of a net loss of \$31,206,160, less non-cash expenses aggregating \$6,095,109 (representing principally stock-based compensation of \$5,405,908 and depreciation expense of \$628,613), a \$625,000 increase in accounts receivable, a \$484,284 increase in prepaid and other current assets, partially offset by a \$948,700 increase in accounts payable from the timing of invoice payments, a \$717,002 increase in accrued expenses and a \$112,245 increase in deferred revenue. During the nine months ended September 30, 2015, cash flows used in operating activities were \$15,460,067, consisting of a net loss of \$18,677,522, less non-cash expenses aggregating \$4,984,540 (representing principally stock-based compensation of \$4,306,435 and depreciation expense of \$617,517), a \$2,000,000 increase in accounts receivable and a \$4,338 increase in prepaid expenses and other current assets, partially offset by an increase

of \$58,591 in accounts payable and an increase of \$194,945 in accrued expenses.

During the nine months ended September 30, 2016 and 2015, cash flows used in investing activities were \$858,445 and \$732,634, respectively. The cash used in investing activities for the nine months ended September 30, 2016 consisted of the purchase of laboratory equipment and building fixtures. The increase for the nine months ended September 30, 2015 consisted primarily of the purchases of laboratory equipment, computer hardware and engineering software to support newly hired employees.

During the nine months ended September 30, 2016, cash flows provided by financing activities were \$20,381,701, which consisted of \$19,890,660 in net proceeds from the sale of stock in a private placement with an investor, \$533,005 in proceeds from contributions to the employee stock purchase program ("ESPP") and \$270,716 in proceeds from the exercise of stock options, offset by \$266,217 in shares withheld to cover payroll taxes on vested RSUs and \$46,463 in shares withheld to cover payroll taxes on vested PSUs. During the nine months ended September 30, 2015, cash flows provided by financing activities were \$208,298, which consisted of proceeds from contributions to the ESPP, proceeds from the exercise of stock options and disgorgement of profit from the sale of stock.

Research and development of new technologies is, by its nature, unpredictable. Although we will undertake development efforts with commercially reasonable diligence, there can be no assurance that our available resources including the net proceeds from our public offerings will be sufficient to enable us to develop our technology to the extent needed to create future revenues to sustain our operations.

We cannot assure that our technology will be adopted, that we will ever earn revenues sufficient to support our operations, or that we will ever be profitable. Furthermore, since we have no committed source of financing, there can be no assurance that we will be able to raise capital as and when we need it to continue our operations.

### ***Off Balance Sheet Transactions***

As of September 30, 2016, we did not have any off-balance sheet transactions.

### ***Material Changes in Specified Contractual Obligations***

A table of our specified contractual obligations was provided in the *Management's Discussion and Analysis of Financial Condition and Results of Operation* of our most recent Annual Report on Form 10-K. There were no material changes outside the ordinary course of our business in the specified contractual obligations during the three and nine months ended September 30, 2016.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

There has been no material change in our exposure to market risk during the nine months ended September 30, 2016. Please refer to "Quantitative and Qualitative Disclosures about Market Risk" contained in Part II, Item 7A of our Form 10-K for the year ended December 31, 2015 for a discussion of our exposure to market risk.



Item 4. Controls and Procedures

***Evaluation of Disclosure Controls and Procedures***

We have established disclosure controls and procedures to ensure that material information relating to us is made known to the officers who certify our financial reports and the board of directors.

Based on their evaluation as of September 30, 2016, our principal executive and principal financial and accounting officers have concluded that these disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) were effective as of September 30, 2016 to provide reasonable assurance that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in Securities and Exchange Commission rules and forms and that information required to be disclosed by us in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

***Changes in Internal Control over Financial Reporting***

For the quarter ended September 30, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II – OTHER INFORMATION**

Item 1. Legal Proceedings

We are not currently a party to any pending legal proceedings that we believe will have a material adverse effect on our business or financial conditions. We may, however, be subject to various claims and legal actions arising in the ordinary course of business from time to time.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed under “Risk Factors” in our annual report on Form 10-K as filed with the Securities and Exchange Commission on March 15, 2016. These factors could materially adversely affect our business, financial condition, liquidity, results of operations and capital position, and could cause our actual results to differ materially from our historical results or the results contemplated by any forward-looking statements contained in this report.

**Item 2. Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities**

On May 19, 2016, the Company issued Restricted Stock Unit awards to seven new non-executive employees as inducement grants to enter into employment with the Company. These awards cover a total of 126,000 shares of the Company’s common stock. These awards vest in four equal annual installments beginning on the first anniversary of the date of grant. These new hire inducement awards were granted pursuant to NASDAQ Listing Rule 5635(c)(4) and Section 4(a)(2) of the Securities Act of 1933.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

The exhibits required to be filed as a part of this report are listed in the Exhibit Index.

## **SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**ENERGIOUS CORPORATION**  
(Registrant)

Date: November 9, 2016 By: /s/ Stephen R. Rizzone

Name: Stephen R. Rizzone

Title: President, Chief Executive Officer and Director  
(Principal Executive Officer)

Date: November 9, 2016 By: /s/ Brian Sereda

Name: Brian Sereda

Title: Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

## EXHIBIT INDEX

Exhibit Number	Description
3.1	Second Amended and Restated Certificate of Incorporation of Energous Corporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1/A (File No. 333-193522) filed on March 13, 2014)
3.2	Amendment No. 1 to the Second Amended and Restated Certificate of Incorporation of Energous Corporation (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed on May 14, 2014)
3.3	Amended and Restated Bylaws of Energous Corporation (incorporated by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1/A (File No. 333-193522) filed on March 13, 2014)
31.1	Certification of Periodic Report by Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Periodic Report by Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14a and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Periodic Report by Chief Executive Officer and Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Schema (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith)