

Novocure Ltd
Form 10-Q
July 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number 001-37565

NovoCure Limited

(Exact Name of Registrant as Specified in Its Charter)

Jersey 98-1057807
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

Le Masurier House

La Rue Le Masurier

St. Helier, Jersey JE2 4YE

(Address of principal executive offices)

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+44 (0) 15 3475 6700

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding as of July 20, 2017
Ordinary shares, no par value	89,002,575 Shares

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical facts or statements of current condition, this report 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. Forward-looking statements contained in this report are based on our current plans, expectations, hopes, beliefs, intentions or strategies concerning future developments and their impact on us. Forward-looking statements contained in this report constitute our expectations or forecasts of future events as of the date this report was filed with the Securities and Exchange Commission and are not statements of historical fact. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as “anticipate,” “will,” “estimate,” “expect,” “project,” “intend,” “should,” “plan,” “believe” and other words and terms of similar meaning in connection with any discussion of, among other things, future operating or financial performance, strategic initiatives and business strategies, regulatory or competitive environments, our intellectual property and delivery system research and development. In particular, these forward-looking statements include, among others, statements about:

- our research and development, clinical trial and commercialization activities and projected expenditures;
- the further commercialization of Optune®, our first Tumor Treating Fields (“TTFields”) delivery system, and our other TTFields delivery system candidates;
- our business strategies and the expansion of our sales and marketing efforts in the United States and in other countries;
- the market acceptance of Optune and our other TTFields delivery systems by patients, physicians, third-party payers and others in the healthcare and scientific community;
- our plans to pursue the use of TTFields for the treatment of other solid tumor cancers;
- our estimates regarding revenues, expenses, capital requirements and needs for additional financing;
- our ability to obtain regulatory approvals for additional indications and any future TTFields delivery systems;
- our ability to acquire the supplies needed to manufacture our TTFields delivery systems from third-party suppliers;
- our ability to manufacture adequate supply;
- our ability to secure adequate coverage from third-party payers to reimburse us for Optune or future TTFields delivery systems;
- our ability to maintain and develop our intellectual property position;
- our cash needs;
- our ongoing legal proceedings and tax audits; and
- our prospects, financial condition and results of operations.

These forward-looking statements involve a number of risks and uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. Factors which may cause such differences to occur include those risks and uncertainties set forth under Part I, Item 1A., “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, as well as other risks and uncertainties set forth from time to time in the reports we file with the U.S. Securities and Exchange Commission. We do not intend to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

TRADEMARKS

This Quarterly Report on Form 10-Q includes trademarks of NovoCure Limited and other persons. All trademarks or trade names referred to herein are the property of their respective owners.

NovoCure Limited

Quarterly Report on Form 10-Q

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

NOVOCURE LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	June 30, 2017 Unaudited	December 31, 2016 Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 80,190	\$ 99,780
Short-term investments	104,186	119,854
Restricted cash	1,537	267
Trade receivables	13,888	6,339
Receivables and prepaid expenses	11,544	10,084
Inventories	25,147	25,549
Total current assets	236,492	261,873
LONG-TERM ASSETS:		
Property and equipment, net	9,621	9,812
Field equipment, net	9,061	8,808
Severance pay fund	102	88
Other long-term assets	1,766	1,500
Total long-term assets	20,550	20,208
TOTAL ASSETS	\$ 257,042	\$ 282,081

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

NOVOCURE LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share data)

	June 30, 2017 Unaudited	December 31, 2016 Audited
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 13,161	\$ 18,356
Other payables and accrued expenses	22,010	18,526
Total current liabilities	35,171	36,882
LONG-TERM LIABILITIES:		
Long-term loan, net of discount and issuance costs	96,765	96,231
Employee benefit liabilities	2,679	2,590
Other long-term liabilities	4,882	4,033
Total long-term liabilities	104,326	102,854
TOTAL LIABILITIES	139,497	139,736
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Share capital -	-	-
Ordinary shares no par value, unlimited shares authorized; issued and outstanding:		
88,630,205 shares and 87,066,446 shares at June 30, 2017 (unaudited) and		
December 31, 2016, respectively		
Additional paid-in capital	679,099	664,154
Accumulated other comprehensive loss	(1,739)	(1,883)
Accumulated deficit	(559,815)	(519,926)
Total shareholders' equity	117,545	142,345
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 257,042	\$ 282,081

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

NOVOCURE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

	Three months ended		Six months ended		Year ended
	June 30, 2017 Unaudited	2016	June 30, 2017 Unaudited	2016	December 31, 2016 Audited
Net revenues	\$38,376	\$17,919	\$73,256	\$30,972	\$82,888
Cost of revenues	13,152	9,797	24,816	17,779	39,870
Impairment of field equipment	-	6,412	-	6,412	6,412
Gross profit	25,224	1,710	48,440	6,781	36,606
Operating costs and expenses:					
Research, development and clinical trials	9,371	11,318	18,782	22,763	41,467
Sales and marketing	16,360	14,598	31,116	27,906	59,449
General and administrative	15,023	13,031	27,445	25,287	51,007
Total operating costs and expenses	40,754	38,947	77,343	75,956	151,923
Operating loss	(15,530)	(37,237)	(28,903)	(69,175)	(115,317)
Financial expenses, net	(2,183)	(555)	(4,629)	(1,104)	(6,147)
Loss before income tax expense	(17,713)	(37,792)	(33,532)	(70,279)	(121,464)
Income tax expense	3,461	2,820	5,687	5,770	10,381
Net loss	\$(21,174)	\$(40,612)	\$(39,219)	\$(76,049)	\$(131,845)
Basic and diluted net loss per ordinary share	\$(0.24)	\$(0.48)	\$(0.45)	\$(0.90)	\$(1.54)
Weighted average number of ordinary shares used in					
computing basic and diluted net loss per share	88,218,868	85,274,683	87,835,926	84,843,028	85,558,448

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

U.S. dollars in thousands

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	Three months ended		Six months ended		Year ended
	June 30,	2016	June 30,	2016	December 31, 2016
	Unaudited		Unaudited		Audited
Net loss	\$(21,174)	\$(40,612)	\$(39,219)	\$(76,049)	\$(131,845)
Other comprehensive income (loss), net of tax :					
Change in foreign currency translation adjustments	1	56	10	56	10
Pension benefit plan	183	235	134	(235)	(388)
Total comprehensive loss	\$(20,990)	\$(40,321)	\$(39,075)	(76,228)	\$(132,223)

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

NOVOCURE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

	Ordinary shares Shares	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance as of December 31, 2015 (audited)	83,778,581	\$ 640,406	\$ (1,505)	\$ (388,081)	\$ 250,820
Share-based compensation to employees	-	21,441	-	-	21,441
Exercise of options and warrants	3,195,477	993	-	-	993
Issuance of shares in connection with employee stock					
purchase plan	92,388	616	-	-	616
Tax benefit from share-based award activity	-	698	-	-	698
Other comprehensive loss, net of tax benefit of \$38	-	-	(378)	-	(378)
Net loss	-	-	-	(131,845)	(131,845)
Balance as of December 31, 2016 (audited)	87,066,446	\$ 664,154	\$ (1,883)	\$ (519,926)	\$ 142,345
Share-based compensation to employees	-	12,131	-	-	12,131
Exercise of options and warrants	1,446,792	1,363	-	-	1,363
Cumulative effect adjustment resulting from ASU					
2016-09 adoption (see Note 1)	-	670	-	(670)	-
Issuance of shares in connection with employee stock					
purchase plan	116,967	781	-	-	781
Other comprehensive loss, net of tax benefit of \$29	-	-	144	-	144
Net loss	-	-	-	(39,219)	(39,219)
Balance as of June 30, 2017 (unaudited)	88,630,205	\$ 679,099	\$ (1,739)	\$ (559,815)	\$ 117,545

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

NOVOCURE LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Three months ended		Six months ended		Year ended
	June 30,	2016	June 30,	2016	December 31,
	2017		2017	2016	2016
	Unaudited		Unaudited		Audited
Cash flows from operating activities:					
Net loss	\$(21,174)	\$(40,612)	\$(39,219)	\$(76,049)	\$(131,845)
Adjustments to reconcile net loss to net cash used in operating activities:					
Depreciation and amortization	1,811	1,407	3,471	2,510	5,652
Asset write-downs and impairment of field equipment	59	6,425	134	6,430	6,446
Increase in accrued interest expense	-	(637)	-	-	-
Share-based compensation to employees	7,570	5,637	12,131	11,093	22,139
Excess tax benefits from share-based award activity	-	-	-	-	(698)
Increase in trade receivables	(2,064)	-	(7,550)	-	(6,339)
Amortization of discount (premium)	103	(39)	209	(56)	155
Decrease (increase) in receivables and prepaid expenses	3,354	(1,672)	(1,461)	(2,208)	243
Decrease (Increase) in inventories	803	(4,769)	403	(7,621)	(11,955)
Increase in other long-term assets	(38)	(111)	(294)	(278)	(692)
Increase (decrease) in trade payables	(1,638)	2,321	(5,195)	4,144	1,601
Increase in other payables and accrued expenses	4,888	2,399	3,478	756	6,647
Increase in employee benefit liabilities, net	130	32	239	270	97
Increase in other long-term liabilities	321	225	871	638	957
Net cash used in operating activities	\$(5,875)	\$(29,394)	\$(32,783)	\$(60,371)	\$(107,592)
Cash flows from investing activities:					
Purchase of property and equipment	\$(376)	\$(2,338)	\$(1,407)	\$(3,340)	\$(5,674)
Purchase of field equipment	(859)	(4,274)	(2,261)	(6,100)	(11,990)
increase in restricted cash	(1)	(13)	(1,269)	(12)	(180)
Proceeds from maturity of short-term investments	60,000	-	120,000	150,000	270,000
Purchase of short-term investments	(59,352)	-	(104,006)	(119,728)	(239,341)
Net cash provided by (used in) investing activities	\$(588)	\$(6,625)	\$11,057	\$20,820	\$12,815
Cash flows from financing activities:					
Proceeds from issuance of shares, net	\$781	\$-	\$781	\$-	\$616
Proceeds from long-term loan, net	19	17	19	17	72,887
Excess tax benefits from share-based award activity	-	-	-	-	698
Repayment of other long-term loan	(19)	(19)	(37)	(35)	(70)

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Exercise of options and warrants	1,286	904	1,363	961	993
Net cash provided by financing activities	\$2,067	\$902	\$2,126	\$943	\$75,124
Effect of exchange rate changes on cash and cash equivalents	\$(1)	\$56	\$10	\$56	\$10
Decrease in cash and cash equivalents	(4,397)	(35,061)	(19,590)	(38,552)	(19,643)
Cash and cash equivalents at the beginning of the period	84,587	115,932	99,780	119,423	119,423
Cash and cash equivalents at the end of the period	\$80,190	\$80,871	\$80,190	\$80,871	\$99,780
Supplemental cash flow activities:					
Cash paid during the period for:					
Income taxes	\$1,500	\$1,587	\$4,902	\$3,169	\$9,447
Interest	\$2,533	\$1,269	\$5,041	\$1,933	\$6,595

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

NOVOCURE LIMITED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share data)

NOTE 1: ORGANIZATION AND BASIS OF PRESENTATION

Organization. NovoCure Limited (including its consolidated subsidiaries, the “Company”) was incorporated in the Bailiwick of Jersey and is principally engaged in the development, manufacture and commercialization of Tumor Treating Fields (“TTFields”) for the treatment of solid tumors. The Company has regulatory approvals and clearances in certain countries for Optune, its first TTFields delivery system, to treat adult patients with glioblastoma (“GBM”).

Financial statement preparation. The accompanying consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, and intercompany accounts and transactions have been eliminated. In the opinion of the Company’s management, the consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. These consolidated financial statements and accompanying notes should be read in conjunction with the Company’s annual consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the “2016 10-K”) filed with the Securities and Exchange Commission (the “SEC”) on February 23, 2017.

The significant accounting policies applied in the audited annual consolidated financial statements of the Company as disclosed in the 2016 10-K are applied consistently in these unaudited interim consolidated financial statements, except as noted below:

Recently Adopted Accounting Pronouncements. In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in ASU 2016-09 affect all entities that issue share-based payment awards to their employees and involve multiple aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted ASU 2016-09 during the quarter ended March 31, 2017, at which time it changed its accounting policy to account for forfeitures as they occur. The change was applied on a modified retrospective basis with a cumulative effect adjustment to accumulated deficit of \$670 as of January 1, 2017. In addition, excess tax benefits for share-based payments are now presented as an operating activity in the statements of cash flows rather than financing activity. The changes have been applied prospectively in accordance with the ASU and prior periods have not been adjusted.

Recent Accounting Pronouncements. In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of

the Effective Date, which delays the effective date of ASU 2014-09 by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. The new revenue recognition standard will be effective in the first quarter of 2018, with the option to adopt it in the first quarter of 2017. The Company currently anticipates adopting the new standard effective January 1, 2018. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The Company currently anticipates adopting the standard using the modified retrospective method. While the Company is still in the process of completing its assessment on the impact this guidance will have on its consolidated financial statements and related disclosures, the Company expects that the most significant impact relates to the accounting for revenue transactions whereby there is variable consideration.

In April 2016, FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. ASU 2016-10 covers two specific topics: performance obligations and licensing. This amendment includes guidance on immaterial promised goods or services, shipping or handling activities, separately identifiable performance obligations, functional or symbolic intellectual property licenses, sales-based and usage-based royalties, license restrictions (time, use, geographical) and licensing renewals. In addition, in May 2016, FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which is intended to not change the core principle of the guidance in Topic 606, but rather affect only the narrow aspects of Topic 606 by reducing the potential for diversity in practice at initial application and by reducing the cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The Company is currently evaluating the impact of the adoption of both revenue standards on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02-Leases (ASC 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of their classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. ASC 842 supersedes the previous leases standard, ASC 840. The standard is effective on January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In May 2017, FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) Scope of Modification Accounting. ASU 2017-09 provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The Company is evaluating the impact of ASU 2017-09.

NOTE 2: SHORT-TERM INVESTMENTS

The Company invests in marketable U.S. Treasury Bills (“T-bills”) that are classified as held-to-maturity securities. The amortized cost and recorded basis of the T-bills are presented as short-term investments in the amount of \$104,186 and \$119,854 as of June 30, 2017 and December 31, 2016, respectively, and their estimated fair value as of June 30, 2017 and December 31, 2016 was \$104,106 and \$119,825, respectively.

NOTE 3: INVENTORIES

Inventories are stated at the lower of cost or market. The weighted average methodology is applied to determine cost. As of June 30, 2017 and December 31, 2016, the Company’s inventories were composed of:

	June 30, 2017 Unaudited	December 31, 2016 Audited
Raw materials	\$ 5,423	\$ 5,243
Work in progress	10,971	8,292
Finished products	8,753	12,014
Total	\$ 25,147	\$ 25,549

NOTE 4: COMMITMENTS AND CONTINGENT LIABILITIES

The facilities of the Company are leased under various operating lease agreements for periods ending no later than 2024. The Company also leases motor vehicles under various operating leases, which expire on various dates, the latest of which is in 2020.

As of June 30, 2017 and December 31, 2016, the Company pledged bank deposits of \$1,051 and \$807, respectively, to cover bank guarantees in respect of its leases of operating facilities and obtained guarantees by the bank for the fulfillment of the Company's lease and other contractual commitments of \$1,214 and \$955, respectively.

In January 2017, two putative class action lawsuits were filed against the Company, its directors and certain of its officers, as well as the underwriters in the Company's October 2015 initial public offering. The complaints, which purport to be brought on behalf of a class of persons and/or entities who purchased or otherwise acquired ordinary shares of the Company pursuant and/or traceable to the registration statement and prospectus issued in connection with the Company's initial public offering, allege material misstatements and/or omissions in the Company's initial public offering materials in alleged violation of the federal securities laws and seek compensatory damages, among other remedies. The two actions have been consolidated and the plaintiffs filed a consolidated amended complaint on May 31, 2017. The court granted the defendants' motion to bifurcate the motion to dismiss into two stages: a threshold motion to dismiss for lack of personal jurisdiction, lack of subject matter jurisdiction, and insufficient process and service of process, due on July 31, 2017; and, if the matter is not dismissed following that threshold motion, a subsequent merits motion to dismiss regarding whether the allegations in the amended complaint state a claim under the securities laws. The Company believes that the amended complaint is without merit and plans to defend the consolidated lawsuits vigorously. The Company has not accrued

any amounts in respect of these lawsuits, as a liability is not probable and the amount of any potential liability cannot be reasonably estimated.

NOTE 5: SHARE CAPITAL

For the six months ended June 30, 2017, warrants to purchase 1,417,097 ordinary shares with an exercise price of \$3.59 per share were cashlessly exercised, resulting in the issuance of 801,845 ordinary shares. Also, warrants to purchase 6,498 ordinary shares with an exercise price of \$3.59 per share were exercised for cash. For the six months ended June 30, 2017, options to purchase 639,902 ordinary shares were exercised for cash, resulting in the issuance of 639,902 ordinary shares.

NOTE 6: EQUITY INCENTIVE PLANS

In September 2015, the Company adopted the 2015 Omnibus Incentive Plan (the “2015 Plan”). Under the 2015 Plan, the Company can issue various types of equity compensation awards such as share options, restricted shares, performance shares, restricted stock units (“RSUs”), performance units, long-term cash award and other share-based awards.

Options granted under the 2015 Plan generally have a four-year vesting period and expire ten years after the date of grant. Options granted under the 2015 Plan that are cancelled or forfeited before expiration become available for future grants. RSUs granted under the 2015 Plan vest in equal installments over a three-year period. As of June 30, 2017, 9,824,964 ordinary shares were available for grant under the 2015 Plan.

A summary of the status of the Company’s option plans as of June 30, 2017 and changes during the period then ended is presented below:

	Six months ended June 30, 2017 Unaudited	
	Number	Weighted average exercise price
Outstanding at beginning of year	11,377,354	\$ 9.76
Granted	4,757,238	9.25
Exercised	(639,902)	2.13
Forfeited and cancelled	(205,370)	12.65
Outstanding as of June 30, 2017	15,289,320	9.88
Exercisable options	6,722,358	7.49
Vested and expected to vest	15,289,320	\$ 9.88

A summary of the status of the Company’s RSUs as of June 30, 2017 and changes during the period then ended is presented below:

	Six months ended June 30, 2017 Unaudited	
	Number	Weighted average grant date fair value price
	of RSUs	
Unvested at beginning of year	-	\$ -
Granted	1,661,619	9.64
Vested	-	-
Forfeited and cancelled	-	-
Unvested as of June 30, 2017	1,661,619	\$ 9.64

In September 2015, the Company adopted an employee share purchase plan (“ESPP”) to encourage and enable eligible employees to acquire ownership of the Company’s ordinary shares purchased through accumulated payroll deductions on an after-tax basis. In the United States, the ESPP is intended to be an “employee stock purchase plan” within the meaning of Section 423 of the Internal Revenue Code and the provisions of the ESPP will be construed in a manner consistent with the requirements of such section. The

Company began its offerings under the ESPP on August 1, 2016. As of June 30, 2017, 2,328,171 ordinary shares were available to be purchased by eligible employees under the ESPP and 209,355 shares had been issued under the ESPP.

The fair value of equity-based awards was estimated using the Black-Scholes option-pricing model for all grants with the following underlying assumptions:

	Year ended		
	Six months ended June 30,		December 31,
	2017 Unaudited	2016	2016 Audited
Stock Option Plans			
Expected term (years)	5.5-6.25	6.25	6.25
Expected volatility	56.74%-59.15%	59.80%-61.65%	58.40%-61.70%
Risk-free interest rate	1.99%-2.23%	1.23%-1.88%	1.23%-1.88%
Dividend yield	0.00%	0.00%	0.00%
ESPP			
Expected term (years)	0.50	-	0.42
Expected volatility	82.00%	-	70.45%
Risk-free interest rate	0.62%	-	0.40%
Dividend yield	0.00%	-	0.00%

The total non-cash share-based compensation expense related to all of the Company's equity-based awards recognized for the three and six months ended June 30, 2017 and 2016 and the year ended December 31, 2016 was:

	Year ended				
	Three months ended June 30,		Six months ended June 30,		December 31,
	2017 Unaudited	2016	2017 Unaudited	2016	2016 Audited
Cost of revenues	\$ 131	\$ 170	\$ 274	\$ 311	\$ 623
Research, development and clinical trials	811	839	1,673	1,602	3,155
Sales and marketing	1,735	1,349	2,390	2,639	5,111
General and administrative	4,893	3,279	7,794	6,541	12,552
Total share-based compensation expense	\$ 7,570	\$ 5,637	\$ 12,131	\$ 11,093	\$ 21,441

NOTE 7: SUPPLEMENTAL INFORMATION

The Company operates in a single reportable segment.

The following table presents long-lived assets by location:

	June 30, 2017 Unaudited	December 31, 2016 Audited
United States	\$ 12,096	\$ 11,981
Switzerland	4,358	4,346
Israel	1,777	1,915
Others	451	378
Total	\$ 18,682	\$ 18,620

The Company's revenues by geographic region, based on the customer's location, are summarized as follows:

	Three months ended June 30,		Six months ended June 30,		Year ended December 31,
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
United States	\$31,367	\$16,122	\$60,526	\$28,135	\$72,771
EMEA (*)	6,891	1,797	12,559	2,775	10,028
Japan	118	-	171	62	89
Total	\$38,376	\$17,919	\$73,256	\$30,972	\$82,888
(*) including Germany	\$6,817	\$1,766	12,216	2,659	\$9,799

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We encourage you to read this MD&A in conjunction with our consolidated financial statements and the notes thereto for the period ended June 30, 2017 included in Part I, Item 1 of this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under Part I, Item 1A, "Risk Factors", of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (the "2016 10-K"), our actual results may differ materially from those anticipated in these forward-looking statements. References to the words "we," "our," "us," and the "Company" in this report refer to NovoCure Limited, including its consolidated subsidiaries.

Overview

We are a commercial stage oncology company developing a profoundly different cancer treatment centered on a proprietary therapy called Tumor Treating Fields ("TTFields"), the use of electric fields tuned to specific frequencies to disrupt solid tumor cancer cell division. Our key priorities are to accelerate commercial adoption of Optune, our first commercial TTFields delivery system, for the treatment of glioblastoma ("GBM") and to advance programs testing the efficacy and safety of TTFields in multiple solid tumor indications through our clinical pipeline.

We were founded in 2000 and operated as a development stage company through December 31, 2011. We initially received U.S. Food and Drug Administration ("FDA") approval for Optune in 2011 for use as a monotherapy treatment for adult patients with GBM following confirmed recurrence after chemotherapy. In October 2015, we received FDA approval to market Optune for the treatment of adult patients with newly diagnosed GBM in combination with temozolomide, a chemotherapy drug. We have also received approval to market Optune in Germany, Switzerland, Israel, Japan and certain other countries. To date, we have focused on commercializing Optune in the United States, Germany, Switzerland, Israel and Japan, which we refer to collectively as our currently active markets.

In April 2017, we announced final analyses of the full 695 patient dataset with a median follow-up of 40 months from our phase 3 pivotal trial of Optune in combination with temozolomide for patients with newly diagnosed GBM. For patients treated with Optune in combination with temozolomide versus patients treated with temozolomide alone, the two-year survival rate increased from 30 percent to 43 percent and the five-year survival rate increased from five percent to 13 percent. These data further support our belief that Optune plus temozolomide is an essential combination treatment for patients with newly diagnosed GBM.

We continue to work with payers to expand access to Optune for patients with newly diagnosed and recurrent GBM. As of June 30, 2017, more than 204 million Americans have available coverage for the use of Optune for newly diagnosed and/or recurrent GBM. Additionally, we have signed contracts to establish Optune as an in-network benefit for more than 174 million American lives. The percentage of our U.S. active patient population who are beneficiaries of the Medicare fee-for-service program, which has denied coverage for our claims to date, continues to range from 20 to 25 percent.

In March 2017, we received Japanese Ministry of Health, Labour and Welfare ("MHLW") approval for the second generation Optune system. In March 2017, we filed an application to request a defined reimbursement rate for Optune based on the December 2016 regulatory approval of Optune to treat newly diagnosed GBM. We are currently in active reimbursement discussions with the MHLW and anticipate receiving feedback in the third quarter 2017.

We have researched the biological effects of TTFields extensively. Because TTFields are delivered regionally, act only on dividing cells (a biological process known as mitosis) and are frequency-tuned to target cells of a specific

size, we believe there is minimal damage to healthy cells. We believe our pre-clinical and clinical research demonstrates that TTFields' mechanism of action affects fundamental aspects of cell division and may have broad applicability across a variety of solid tumors. We have demonstrated in pre-clinical studies that TTFields can offer additive or synergistic benefits in combination with radiation, chemotherapy and immunotherapy, which may lead to greater efficacy than radiation, chemotherapy and immunotherapy alone, without significantly increasing the side effects when used in combination with other cancer treatments.

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We are currently planning or conducting clinical trials evaluating the use of TTFields in brain metastases, non-small-cell lung cancer (“NSCLC”), pancreatic cancer, ovarian cancer and mesothelioma. We anticipate expanding our clinical pipeline over time to study the safety and efficacy of TTFields for additional solid tumor indications. The table below presents the current status of our clinical pipeline.

In May 2017, we received humanitarian use device (HUD) designation for the use of TTFields for the treatment of pleural mesothelioma. The HUD designation is the first step in obtaining a Humanitarian Device Exemption (HDE) for the treatment of pleural mesothelioma with TTFields. An approved HDE would allow Novocure to market TTFields in combination with standard of care chemotherapy as a treatment for pleural mesothelioma in the United States.

We own all commercialization rights to TTFields in oncology. Our robust global patent and intellectual property portfolio consists of over 120 issued patents, with numerous additional patent applications pending worldwide. The patents have expected expiration dates between 2021 and 2035. We have also filed over 50 additional patent applications that, if issued, may protect aspects of our platform beyond 2035. We believe we will maintain exclusive rights to market TTFields for all solid tumor indications in our key markets through the life of our patents.

We were incorporated in the Bailiwick of Jersey in 2000. Our U.S. operations are located in Portsmouth, New Hampshire, Malvern, Pennsylvania, and New York City. Additionally, we have offices in Germany, Switzerland, Israel and Japan, and a research center in Israel. We completed our initial public offering of our ordinary shares in October 2015. Our ordinary shares are quoted on the NASDAQ Global Select Market under the symbol “NVCR.”

Financial Overview. We expect to continue to incur significant expenses and operating losses for at least the next several years. We expect our research, development and clinical trials expenses to increase in connection with our ongoing activities, and as additional indications enter late-stage clinical development. In addition, we expect to incur significant commercialization expenses for product sales, marketing, manufacturing and distribution. We may need additional funding to support the continuation of our operating activities. Until we can generate substantial revenues (which may not occur), we expect to finance our cash needs through our existing cash, cash equivalents, short-term investments, equity issuances or additional debt, and possibly also from collaborations, strategic alliances, licensing arrangements and other marketing and distribution arrangements. We will need to generate significant revenues to achieve profitability, and we may never do so.

Critical accounting policies and estimates

In accordance with U.S. GAAP, in preparing our financial statements, we must make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of net revenues and expenses during the reporting period. We develop and periodically change these estimates and assumptions based on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates.

The critical accounting policies requiring estimates, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements can be found in our 2016 10-K. There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our 2016 10-K.

Results of Operations

We account for revenue when all revenue recognition criteria have been met or when cash is collected. Revenue recognized in a given period may include a mixture of accrued revenue, cash collections from amounts billed in prior periods and cash collections from amounts billed in the current period. We report certain operating statistics to provide additional insight into the commercial performance of Optune in our currently active markets.

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Prescriptions are a leading indicator of Optune demand. The conversion of prescriptions to new patients is driven by the prescription fill rate and the time to fill. In the twelve months ended June 30, 2017, our prescription fill rate was between 70-75%. The number of active patients on Optune is our principal revenue driver. Growth in the number of active patients is a factor of both new patient starts and treatment duration. Median treatment duration differs based upon the clinical diagnosis of the patient. For the three months ended June 30, 2017, more than 55% of prescriptions received were for patients with newly diagnosed GBM.

The following table includes certain commercial operating statistics for and as of the end of the periods presented.

Operating statistics	Three months ended		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Prescriptions received in period (1)				
United States	803	547	1,488	1,231
EMEA (2) (*)	255	110	461	181
Japan (2)	1	-	4	-
	1,059	657	1,953	1,412
(*) including Germany	189	76	351	134
			June 30, 2017	2016
Active patients at period end (3)				
United States			1,083	736
EMEA (2) (*)			376	155
Japan (2)			1	-
			1,460	891
(*) including Germany			278	111

(1) A “prescription received” is a commercial order for Optune that is received from a physician certified to treat patients with Optune for a patient not previously on Optune. Orders to renew or extend treatment are not included in this total.

(2) As we enter each new market, our commercial activities focus initially on establishing the required in-market infrastructure, certifying physicians to prescribe Optune and obtaining a defined reimbursement pathway. Once established, our commercial efforts turn to increasing adoption.

(3) An “active patient” is a patient who is on Optune under a commercial prescription order as of the measurement date, including patients who may be on a temporary break from treatment and who plan to resume treatment in less than 60 days.

Net revenues. Substantially all of our revenues are derived from patients using our TTFIELDS delivery system, marketed as Optune in our currently active markets. We charge patients or their third-party healthcare payers directly on a monthly basis and bear the financial risk of securing payment in the United States and Europe.

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The following is a summary of gross billings and revenues recorded on an accrual basis and a cash basis by quarters (unaudited):

U.S. dollars in millions	2017		2016			
	Q2	Q1	Q4	Q3	Q2	Q1
Gross billings	\$87.2	\$73.2	\$63.8	\$57.5	\$54.0	\$45.5
Accrual basis revenue	\$19.1	\$14.7	\$8.5	\$0.0	\$0.0	\$0.0
Cash basis revenue for therapy provided in the period	5.7	5.9	6.3	8.9	7.6	5.6
Cash basis revenue for therapy provided in previous periods	13.6	14.3	15.5	12.7	10.3	7.4
Net revenues	\$38.4	\$34.9	\$30.2	\$21.7	\$17.9	\$13.1

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We began recognizing a portion of our net revenues on an accrual basis in the fourth quarter 2016. All of the net revenues recognized on an accrual basis represent charges to certain U.S.-based third-party payers. In the table above, gross billings reflect the total charges for active patients on Optune without any deductions or adjustments for payer discounts, patient financial assistance, charitable care or other similar items. The subsequent table line items detail the three sources of net revenue in the applicable reporting period. We believe there will be an extended period of time when our revenue is a mix of both cash-based and accrual-based revenue.

Cost of revenues. Our cost of revenues is comprised primarily of (i) cost of the disposable transducer arrays purchased from third-party manufacturers, (ii) depreciation expense for field equipment, including the electric field generator used by patients and (iii) personnel, warranty and overhead costs such as facilities, freight and depreciation of property, plant and equipment associated with managing our inventory, warehousing and order fulfillment functions.

Operating Expenses. Our operating expenses consist of research, development and clinical trials, sales and marketing and general and administrative expenses. Personnel costs are a significant component for each category of operating expenses and consist of wages, benefits and bonuses. Personnel costs also include share-based compensation.

Financial expenses, net. Financial expenses, net primarily consists of interest expense and related debt issuance costs under our Term Loan Credit Facility, interest income from cash balances and short-term investments and gains (losses) from foreign currency transactions.

We view our operations and manage our business in one operating segment. For the three and six months ended June 30, 2017, our net revenues were \$38.4 million and \$73.3 million, respectively, and our net loss was \$21.2 million and \$39.2 million, respectively. Our net loss for the three and six months ended June 30, 2017 includes \$7.6 million and \$12.1 million, respectively, in non-cash share-based compensation expense. As of June 30, 2017, we had an accumulated deficit of \$559.8 million.

Three months ended June 30, 2017 compared to three months ended June 30, 2016

(All dollar figures in tables are in thousands unless otherwise indicated)

	Three months ended June 30,			
	2017	2016	Change	% Change
Net revenues	\$38,376	\$17,919	\$20,457	114 %

Net revenues. Net revenues increased \$20.5 million, or 114%, to \$38.4 million for the three months ended June 30, 2017 from \$17.9 million for the three months ended June 30, 2016. This was primarily due to an increase of \$15.2 million in commercial sales of Optune in the United States and an increase of \$5.2 million in commercial sales of Optune in our other currently active markets.

For the three months ended June 30, 2017, gross billings totaled \$87.2 million. 24% of our gross billings qualified for accrual-based net revenue recognition. Of those qualifying gross billings, net revenues recorded on an accrual basis during the three months ended June 30, 2017, were \$19.1 million. Net revenues recorded on a cash basis during the three months ended June 30, 2017 were \$19.3 million.

Cost of revenues. Our cost of revenues (excluding the impairment of field equipment described below) increased by \$3.4 million, or 34%, to \$13.2 million for the three months ended June 30, 2017 from \$9.8 million for the three

months ended June 30, 2016. The increase was primarily due to increases of \$2.7 million in transducer arrays shipped to commercial patients, \$0.4 million for field equipment depreciation, and \$0.3 million of personnel costs, including \$0.1 million of non-cash share-based compensation. Each of these increases were primarily driven by the increase in active patients period-to-period.

We received FDA approval on our PMA supplement application to market second generation Optune in the United States in July 2016. In the second quarter 2016, we recorded an impairment loss with respect to the write-off of first generation Optune field equipment (finished goods and production stage) in the amount of \$6.4 million that was not recoverable and was presented in cost of revenues. We do not expect the conversion to result in an additional material impairment charge in the future.

Operating Expenses.

	Three months ended June 30,			
	2017	2016	Change	% Change
Research, development and clinical trials	\$9,371	\$11,318	\$(1,947)	(17 %)
Sales and marketing	16,360	14,598	1,762	12 %
General and administrative	15,023	13,031	1,992	15 %
Total operating expenses	\$40,754	\$38,947	\$1,807	5 %
Non-cash expenses:				
Share-based compensation expense	\$7,439	\$5,467	\$1,972	