

GenMark Diagnostics, Inc.
Form 10-Q
August 01, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 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: 001-34753

GenMark Diagnostics, Inc.
(Exact name of registrant as specified in its charter)

Delaware 27-2053069
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

5964 La Place Court 92008-8829
Carlsbad, California
(Address of principal executive offices) (Zip code)
Registrant's telephone number, including area code: 760-448-4300

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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

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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. "

The number of outstanding shares of the registrant's common stock on July 28, 2017, was 54,667,417.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GENMARK DIAGNOSTICS, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

	June 30, 2017	December 31, 2016
Current assets		
Cash and cash equivalents	\$88,427	\$ 15,959
Marketable securities	18,091	25,607
Accounts receivable, net of allowances of \$2,773 and \$2,740, respectively	7,268	9,048
Inventories	7,105	6,633
Prepaid expenses and other current assets	1,324	1,202
Total current assets	122,215	58,449
Property and equipment, net	19,778	18,268
Intangible assets, net	2,923	2,670
Restricted cash	758	758
Other long-term assets	179	179
Total assets	\$ 145,853	\$ 80,324
Current liabilities		
Accounts payable	\$6,665	\$ 8,703
Accrued compensation	4,502	5,650
Loan payable	19,275	7,935
Other current liabilities	3,557	4,133
Total current liabilities	33,999	26,421
Long-term liabilities		
Deferred rent	3,378	3,652
Long-term debt	14,901	11,880
Other non-current liabilities	222	220
Total liabilities	52,500	42,173
Stockholders' equity		
Preferred stock, \$0.0001 par value; 5,000 authorized, none issued	—	—
Common stock, \$0.0001 par value; 100,000 authorized; 54,665 and 46,554 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	6	4
Additional paid-in capital	480,507	393,322
Accumulated deficit	(387,176)	(355,270)
Accumulated other comprehensive income	16	95
Total stockholders' equity	93,353	38,151
Total liabilities and stockholders' equity	\$ 145,853	\$ 80,324

See accompanying notes to unaudited condensed consolidated financial statements.

GENMARK DIAGNOSTICS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
Product revenue	\$12,291	\$12,425	\$24,761	\$23,384
License and other revenue	68	87	133	192
Total revenue	12,359	12,512	24,894	23,576
Cost of revenue	7,475	4,720	13,827	9,095
Gross profit	4,884	7,792	11,067	14,481
Operating expenses				
Sales and marketing	5,159	3,300	9,853	7,009
General and administrative	3,978	3,876	7,988	7,296
Research and development	13,014	13,204	24,049	25,472
Total operating expenses	22,151	20,380	41,890	39,777
Loss from operations	(17,267)	(12,588)	(30,823)	(25,296)
Other income (expense)				
Interest income	54	26	106	55
Interest expense	(755)	(308)	(1,261)	(585)
Other income	56	(42)	151	(9)
Total other expense	(645)	(324)	(1,004)	(539)
Loss before provision for income taxes	(17,912)	(12,912)	(31,827)	(25,835)
Income tax expense	77	(5)	78	31
Net loss	\$(17,989)	\$(12,907)	\$(31,905)	\$(25,866)
Net loss per share, basic and diluted	\$(0.37)	\$(0.30)	\$(0.67)	\$(0.60)
Weighted average number of shares outstanding, basic and diluted	48,067	42,864	47,460	42,768
Other comprehensive loss				
Net loss	\$(17,989)	\$(12,907)	\$(31,905)	\$(25,866)
Foreign currency translation adjustments	3	(34)	94	13
Net unrealized gains (losses) on marketable securities, net of tax	1	(5)	(15)	(21)
Comprehensive loss	\$(17,985)	\$(12,946)	\$(31,826)	\$(25,874)

See accompanying notes to unaudited condensed consolidated financial statements.

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GENMARK DIAGNOSTICS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six Months Ended June 30, 2017	2016
Operating activities		
Net loss	\$ (31,905)	\$ (25,866)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,454	1,791
Amortization of premiums on investments	30	35
Amortization of deferred debt issuance costs	493	169
Stock-based compensation	5,602	4,540
Provision for bad debt	32	23
Non-cash inventory adjustments	565	92
Other non-cash adjustments	(123)	19
Changes in operating assets and liabilities:		
Accounts receivable	1,795	1,406
Inventories	(2,563)	306
Prepaid expenses and other assets	(119)	(721)
Accounts payable	(3,134)	1,289
Accrued compensation	(1,170)	1,119
Other liabilities	(124)	303
Net cash used in operating activities	(28,167)	(15,495)
Investing activities		
Payments for intellectual property licenses	—	(800)
Purchases of property and equipment	(2,535)	(2,404)
Purchases of marketable securities	(10,496)	(2,532)
Proceeds from sales of marketable securities	13,896	—
	4,100	4,650

Maturities of marketable securities			
Net cash provided by (used in) investing activities	4,965	(1,086)
Financing activities			
Proceeds from issuance of common stock	86,835	449	
Costs incurred in conjunction with stock issuance	(5,171)	—
Principal repayment of borrowings	(964)	(17
Proceeds from borrowings	15,000	10,000	
Costs associated with debt issuance	(187)	(30
Proceeds from stock option exercises	170	352	
Net cash provided by financing activities	95,683	10,754	
Effect of exchange rate changes on cash	(13)	3
Net increase (decrease) in cash and cash equivalents	72,468	(5,824)
Cash and cash equivalents at beginning of period	15,959	35,385	
Cash and cash equivalents at end of period	\$ 88,427	\$ 29,561	
Non-cash investing and financing activities			
Transfer of instruments from (to) property and equipment into (from) inventory	\$ (1,534)	\$ 42
Property and equipment costs included in accounts payable	713	588	
Intellectual property acquisitions included in other current liabilities	500	—	
Supplemental cash flow disclosures			

Cash paid for income taxes, net	54	13
Cash received for interest	187	51
Cash paid for interest	574	408

See accompanying notes to unaudited condensed consolidated financial statements.

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GENMARK DIAGNOSTICS, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

GenMark Diagnostics, Inc., the Company or GenMark, was formed by Osmetech plc as a Delaware corporation in February 2010, and had no operations prior to its initial public offering, which was completed in June 2010. The Company is a leading provider of automated, multiplex molecular diagnostic testing systems that detect and measure DNA and RNA targets to diagnose disease and optimize patient treatment.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP, and applicable regulations of the U.S. Securities and Exchange Commission, or the SEC, and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on February 28, 2017. These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for the full year or any future period.

The Company has experienced net losses and negative cash flows from operating activities since its inception and had an accumulated deficit of \$387,176,000 as of June 30, 2017. The Company's ability to transition to profitable operations is dependent upon achieving a level of revenues adequate to support its cost structure through expanding its product offerings and consequently increasing its product revenues. As of June 30, 2017, the Company had available cash, cash equivalents, and marketable securities of \$106,518,000 and working capital of \$88,216,000 available to fund future operations. The Company has prepared cash flow forecasts which indicate, based on the Company's current cash resources available and working capital, that the Company will have sufficient resources to fund its operations for one year after the date the financial statements are issued.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. The Company's significant estimates included in the preparation of the financial statements are related to accounts receivable, inventories, property and equipment, intangible assets, employee-related compensation accruals, warranty liabilities, tax valuation accounts and stock-based compensation. Actual results could differ from those estimates.

Segment Information

The Company currently operates in one reportable business segment, which encompasses the development, manufacturing, sales and support of instruments and molecular tests based on its proprietary eSensor® detection technology. Substantially all of the Company's operations and assets are in the United States of America.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by FASB or other standard setting bodies that the Company adopts as of the specified effective date.

In November 2016, the FASB issued Accounting Standards Update, or ASU, 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents to be included in the cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-08 is effective for fiscal years beginning after December 15, 2017 (including interim periods within those periods) using a retrospective transition method to each period presented. Early adoption is permitted. The Company will adopt ASU 2016-18 in the first quarter of 2018 and the impact of adoption will result in a beginning and ending cash balance increase of approximately \$758,000. The Company does not anticipate a material impact in the cash flow resulting from fluctuations in the restricted cash balance.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The guidance simplifies how several aspects of share-based payments are accounted for and presented in the financial statements and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company's

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adoption of this guidance in the first quarter of 2017 resulted in excess tax benefits for which a benefit could not be previously recognized of approximately \$1,979,000. Upon adoption, the balance of the unrecognized excess tax benefits was reversed with the impact recorded to retained earnings, including a corresponding change to the valuation allowance. Due to the full valuation allowance on the Company's U.S. deferred tax assets, there was no impact to the Consolidated Financial Statements as a result of adoption. The Company continues to record stock-based compensation expense net of estimated forfeitures.

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of fiscal 2019, with early adoption permitted. The Company believes that adoption will modify its analysis and disclosures of lease agreements considering operating agreements are a significant portion of the Company's total lease commitments. The Company is in the process of determining the effects the adoption will have on its Consolidated Financial Statements as well as whether to early adopt the new guidance.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported by companies while also improving comparability in the financial statements of companies reporting using International Financial Reporting Standards or U.S. GAAP. The main purpose of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which a company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures of revenue, provide guidance for transactions that were not previously addressed comprehensively, and improve guidance for multiple-element arrangements. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of the new revenue standard from periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. Accordingly, the updated standard is effective for the Company in the first quarter of fiscal 2018. The Company performed a preliminary assessment of the impact of ASU 2014-09 on the Consolidated Financial Statements, and considered all items outlined in the standard. In assessing the impact, the Company has outlined all revenue generating activities, mapped those activities to deliverables and traced those deliverables to the standard. The Company is now assessing what impact the change in standard will have on those deliverables. The Company will continue to evaluate the future impact and method of adoption of ASU 2014-09 and related amendments on the Consolidated Financial Statements and related disclosures throughout 2017. The Company believes the adoption will modify the way the Company analyzes contracts, but it does not anticipate a material impact on results of operations. The Company will adopt the new standard beginning January 2018.

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents consist of cash on deposit with banks, money market instruments and certificates of deposit with original maturities of three months or less at the date of purchase. Marketable securities consist of certificates of deposits that mature in greater than three months. Marketable securities are accounted for as "available-for-sale" with the carrying amounts reported in the balance sheets stated at cost, which approximates their fair market value, with unrealized gains and losses, if any, reported as a separate component of stockholders' equity and included in comprehensive loss.

Restricted Cash

Restricted cash represents amounts designated for uses other than current operations and included \$758,000 as of June 30, 2017, held as security for the Company's letter of credit with Banc of California.

Receivables

Accounts receivable consist of amounts due to the Company for sales to customers and are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is determined based on an assessment of the collectability of specific customer accounts, the aging of accounts receivable, and a reserve for unknown items based upon the Company's historical experience.

Product Warranties

The Company generally offers a one-year warranty for its instruments sold to customers and typically up to a 60 day warranty for consumables. Factors that affect the Company's warranty reserves include the number of units sold, historical and anticipated rates of warranty repairs, and the cost per repair. The Company periodically assesses the adequacy of its warranty reserve and adjusts the amount as appropriate.

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Intangible Assets

Intangible assets are comprised of licenses or sublicenses to technology covered by patents owned by third parties, and are amortized on a straight-line basis over the expected useful lives of these assets, which is generally 10 years. Amortization of licenses typically begins upon the Company obtaining access to the licensed technology and is recorded in cost of revenues for licenses supporting commercialized products. The amortization of licenses to technology supporting products in development is recorded in research and development expenses.

Impairment of Long-Lived Assets

The Company assesses the recoverability of long-lived assets, including intangible assets, by periodically evaluating the carrying value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If impairment is indicated, the Company writes down the carrying value of the asset to its estimated fair value. This fair value is primarily determined based on estimated discounted cash flows.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value and include direct labor, materials, and manufacturing overhead. The Company periodically reviews inventory for evidence of slow-moving or obsolete parts, and writes inventory down to net realizable value, as needed. This write down is based on management's review of inventories on hand, compared to estimated future usage and sales, shelf-life assumptions, and assumptions about the likelihood of obsolescence. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not reversed subsequently to income, even if circumstances later suggest that increased carrying amounts are recoverable.

Property and Equipment, net

Property, equipment and leasehold improvements are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which are identified below. Repair and maintenance costs are expensed as incurred.

Machinery and laboratory equipment	3 - 5 years
Instruments	4 - 5 years
Office equipment	3 -7 years
Leasehold improvements	over the shorter of the remaining life of the lease or the useful economic life of the asset

Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax liability or asset is established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. A full valuation allowance has been recorded against the Company's net deferred tax assets due to the uncertainty surrounding the Company's ability to utilize these assets in the future. The Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the authoritative guidance on income taxes. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. The Company recognizes accrued interest related to uncertain tax positions as a component of income tax expense.

A tax position that is more likely than not to be realized is measured at the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the taxing authority that has full knowledge of all relevant information. Measurement of a tax position that meets the more likely than not threshold considers the amounts and

probabilities of the outcomes that could be realized upon settlement using the facts, circumstances and information available at the reporting date.

2. Stock-Based Compensation

The Company recognizes stock-based compensation expense related to stock options, restricted stock awards, restricted stock units, and market-based stock units granted to employees and directors in exchange for services under the Company's 2010 Equity Incentive Plan, or the 2010 Plan, and employee stock purchases under the Company's 2013 Employee Stock Purchase Plan, or the ESPP. Employee participation in the 2010 Plan is at the discretion of the Compensation Committee of the Board of Directors of the Company. Each equity award grant reduces the number of shares available for grant under the 2010 Plan. Stock-based compensation expense is based on the fair value of the applicable award utilizing various assumptions regarding the

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underlying attributes of the award. Stock-based compensation expense is recorded in cost of sales, sales and marketing, research and development, and/or general and administrative expenses based on the employee's respective function. During the six months ended June 30, 2017 and 2016, aggregate stock-based compensation expense was \$5,602,000 and \$4,540,000, respectively.

The estimated fair value, net of forfeitures expected to occur during the vesting period, is amortized as compensation expense that approximates straight-line expense to reflect vesting as it occurs. The stock option expense is derived from the Black-Scholes Option Pricing Model that uses several judgment-based variables to calculate the expense. The market-based stock expense is derived from the Monte Carlo Simulation Valuation. The inputs utilized in the valuation of the stock-based awards include the following factors:

- **Expected Term.** Expected term represents the period that the stock-based awards are expected to be outstanding and is determined by using the simplified method.
- **Expected Volatility.** Expected volatility represents the estimated volatility in the Company's stock price over the expected term of the option or market-based award and is determined by review of the Company's and similar companies' historical experience.
- **Expected Dividend.** The valuation methods requires a single expected dividend yield as an input. The Company assumed no dividends as it has never paid dividends and has no current plans to do so.
- **Risk-Free Interest Rate.** The risk-free interest rate used in the Black-Scholes Option Pricing Model is based on published U.S. Treasury rates in effect at the time of grant for periods corresponding with the expected term of the option or market-based award.

All stock options granted under the 2010 Plan are exercisable at a per share price equal to the closing quoted market price of a share of the Company's common stock on the NASDAQ Global Market on the grant date and generally vest over a period of between one and four years. Stock options are generally exercisable for a period of up to 10 years after grant and are typically forfeited if employment is terminated before the options vest.

The following table summarizes stock option activity during the six months ended June 30, 2017:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2016	2,569,550	\$ 9.53
Granted	—	\$ —
Exercised	(23,555)	\$ 7.21
Cancelled	(5,291)	\$ 11.67
Outstanding at June 30, 2017	2,540,704	\$ 9.55
Vested and expected to vest at June 30, 2017	2,499,263	\$ 9.51
Exercisable at June 30, 2017	2,092,512	\$ 9.06

Options that were exercisable as of June 30, 2017 had a remaining weighted average contractual term of 5.34 years, and an aggregate intrinsic value of \$6,472,000. As of June 30, 2017, there were 2,540,704 stock options outstanding, which had a remaining weighted average contractual term of 5.72 years and an aggregate intrinsic value of \$6,830,000. No stock options were granted during the six months ended June 30, 2017.

Restricted stock awards or units may be granted in connection with the hiring or retention of personnel and are subject to certain conditions. In March 2013, the Company transitioned to granting restricted stock units under the 2010 Plan in lieu of granting restricted stock awards. The compensation expense related to the restricted stock awards or units is calculated as the fair market value of the stock on the grant date and is adjusted for estimated forfeitures. The

Company's restricted stock award and restricted stock unit activity for the six months ended June 30, 2017 was as follows:

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	Restricted Stock Awards		Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2016	156	\$ 11.19	1,766,123	\$ 7.18
Granted	—	\$ —	1,111,130	\$ 10.85
Vested	(156)	\$ 11.19	(493,697)	\$ 6.55
Cancelled	—	\$ —	(56,977)	\$ 9.03
Unvested at June 30, 2017	—	\$ —	2,326,579	\$ 9.02

As of June 30, 2017, all compensation expense related to restricted stock awards has been recognized. The total fair value of restricted stock awards that vested during the six months ended June 30, 2017 and 2016 was \$2,000 and \$138,000, respectively.

As of June 30, 2017, there was \$14,593,000 of unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted average period of 2.97 years. The total fair value of restricted stock units that vested during the six months ended June 30, 2017 and 2016 was \$3,235,000 and \$3,712,000, respectively.

The Company issued market-based stock units in February 2017 and February 2016, which may result in the recipient receiving shares of stock equal to 200% of the target number of units granted. The vesting and issuance of Company stock depends on the Company's stock performance as compared to the NASDAQ Composite Index over a three-year period following the grant and continued service with the Company. As of June 30, 2017, there was \$1,769,000 of unrecognized stock-based compensation expense related to these awards, which is expected to be recognized over a weighted average period of 1.86 years. The Company's market-based stock unit activity for the six months ended June 30, 2017 was as follows:

	Market-Based Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2016	150,871	\$ 11.10
Units granted	166,434	\$ 13.82
Vested	—	\$ —
Cancelled	—	\$ —
Unvested at June 30, 2017	317,305	\$ 12.53

The fair value of these market-based stock units was estimated on the date of grant using the Monte Carlo Simulation Valuation Model, which estimates the potential outcome of achieving the market condition based on simulated future stock prices, with the following assumptions for the six months ended June 30, 2017:

	Six Months Ended			
	June 30, 2017		2016	
Expected volatility	54	%	49	%
Risk-free interest rate	1.50	%	0.90	%
Expected dividend	—	%	—	%

Weighted average fair value \$13.82 \$4.94

The Company issued 43,200 performance-based restricted stock units in March 2014 with a grant date fair value of \$12.30 per share. The vesting and issuance of Company stock pursuant to these awards depends on obtaining regulatory clearance of various products within a defined time. Stock-based compensation expense for performance-based awards is recognized when it is probable that the applicable performance criteria will be satisfied. The probability of achieving the relevant performance criteria is evaluated on a quarterly basis. As of June 30, 2017, there was \$133,000 of unrecognized stock-based compensation expense related to these awards.

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Employee Stock Purchase Plan

The Company's stockholders approved the ESPP in May 2013. A total of 650,000 shares of the Company's common stock were originally reserved for issuance under the ESPP, which permits eligible employees to purchase common stock at a discount through payroll deductions.

The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the Company's common stock on the first or the last day of the offering period, whichever is lower. Generally, each offering under the ESPP will be for a period of six months as determined by the Company's Board of Directors; provided that no offering period may exceed 27 months. Employees may invest up to 10% of their qualifying gross compensation through payroll deductions. In no event may an employee purchase more than 1,500 shares of common stock during any six-month offering period. As of June 30, 2017, there were 207,183 shares of common stock available for issuance under the ESPP. The ESPP is a compensatory plan as defined by the authoritative guidance for stock compensation; therefore, stock-based compensation expense related to the ESPP has been recorded during the six months ended June 30, 2017.

3. Net Loss per Common Share

Basic net loss per share is calculated by dividing loss available to stockholders of the Company's common stock (the numerator) by the weighted average number of shares of the Company's common stock outstanding during the period (the denominator). Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Diluted loss per share is calculated in a similar way to basic loss per share except that the denominator is increased to include the number of additional shares that would have been outstanding if the dilutive potential shares had been issued, unless the effect would be anti-dilutive.

The computations of diluted net loss per share for the three and six month periods ended June 30, 2017 and 2016 did not include the effects of the following stock options and other equity awards which were outstanding as of the end of each period because the inclusion of these securities would have been anti-dilutive (in thousands):

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Options outstanding to purchase common stock	2,541	2,747	2,541	2,747
Other unvested equity awards	2,655	2,101	2,655	2,101
Total	5,196	4,848	5,196	4,848

4. Inventories

Inventory on hand as of June 30, 2017 and December 31, 2016 comprised the following (in thousands):

	June 30, December 31, 2017 2016	
Raw materials	\$ 2,558	\$ 2,171
Work-in-process	2,249	1,488
Finished goods	2,298	2,974
Total inventories	\$ 7,105	\$ 6,633

5. Property and Equipment, net

Property and equipment as of June 30, 2017 and December 31, 2016 comprised the following (in thousands):

	June 30, 2017	December 31, 2016
Property and equipment — at cost:		
Machinery and laboratory equipment	\$ 11,928	\$ 10,145
Instruments	11,286	9,869
Office equipment	1,751	1,714
Leasehold improvements	10,318	10,100
Total property and equipment — at cost	\$ 35,283	\$ 31,828
Less: accumulated depreciation	(15,505)	(13,560)
Property and equipment, net	\$ 19,778	\$ 18,268

Depreciation expense was \$1,114,000 and \$797,000 for the three months ended June 30, 2017 and 2016, respectively, and was \$2,207,000 and \$1,603,000 for the six months ended June 30, 2017 and 2016, respectively.

6. Intangible Assets, net

Intangible assets as of June 30, 2017 and December 31, 2016 comprised the following (in thousands):

	June 30, 2017			December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Licensed intellectual property	\$ 4,750	\$ (1,827)	\$ 2,923	\$ 4,250	\$ (1,580)	\$ 2,670

In July 2012, the Company entered into a development collaboration and license agreement with Advanced Liquid Logic, Inc., or ALL, which was acquired by Illumina, Inc. in July 2013. Under the terms of the agreement, the Company established a collaborative program to develop in-vitro diagnostic products incorporating ALL's proprietary electro-wetting technology in conjunction with the Company's electrochemical detection technology. During the six months ended June 30, 2017, the Company satisfied certain commercial milestones under this agreement requiring a payment of \$500,000 recorded as an addition to licensed intellectual property.

Intellectual property licenses have a weighted average remaining amortization period of 4.93 years as of June 30, 2017. Amortization expense for these licenses was \$123,000 and \$94,000 for the three months ended June 30, 2017 and 2016, respectively, and was \$247,000 and \$188,000 for the six months ended June 30, 2017 and 2016, respectively. Estimated future amortization expense for these licenses is as follows (in thousands):

Fiscal Years Ending	Future Amortization Expense
Remaining in 2017	\$ 298
2018	593
2019	