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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 8-K/A**  
(Amendment No. 1)

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**CURRENT REPORT**  
Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

**Date of Report (Date of earliest event reported): July 31, 2018**

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**MYRIAD GENETICS, INC.**  
(Exact name of registrant as specified in its charter)

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

**0-26642**  
(Commission  
File Number)

**87-0494517**  
(IRS Employer  
Identification No.)

**320 Wakara Way**  
**Salt Lake City, Utah 84108**  
(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (801) 584-3600**

**Not Applicable**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

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**ITEM 2.01 Completion of Acquisition or Disposition of Assets.**

On July 31, 2018, Myriad Genetics, Inc. (“Myriad”) completed its acquisition of Counsyl, Inc. (“Counsyl”), in accordance with the terms of the previously announced Agreement and Plan of Merger (“Merger Agreement”), dated May 25, 2018, by and among Myriad, Cinnamon Merger Sub, Inc., a wholly owned subsidiary of Myriad (“Merger Subsidiary”), Counsyl and Fortis Advisors LLC, as the representative of the securityholders of Counsyl. Pursuant to the terms of the Merger Agreement, Merger Subsidiary was merged with and into Counsyl, with Counsyl continuing as the surviving corporation and wholly owned subsidiary of Myriad (the “Merger”).

On August 1, 2018, Myriad filed a Current Report on Form 8-K (the “Initial Form 8-K”) reporting its completion of the acquisition. Item 9.01(a) and (b) of the Initial Form 8-K did not include the historical financial statements of Counsyl or the unaudited pro forma combined financial information of Myriad (collectively, the Financial Information), and instead contained an undertaking subsequently to file the Financial Information, as permitted by Sections 9.01(a)(4) and 9.01(b)(2) of Form 8-K. This amendment to the Initial Form 8-K is being filed for the purpose of satisfying Myriad’s undertaking to file the Financial Information required by Item 9.01(a) and (b) of Form 8-K, and this amendment should be read in conjunction with Initial Form 8-K.

**ITEM 9.01 Financial Statements and Exhibits.**

(a) Financial Statements of Business Acquired

The audited financial statements of Counsyl, Inc. as of and for the year ended December 31, 2017 and the unaudited consolidated financial statements of Counsyl, Inc. as of March 31, 2018 and for the three-month periods ended March 31, 2018 and 2017, as required by Item 9.01(a) of Form 8-K, are filed as Exhibit 99.1 and 99.2 to this Current Report on Form 8-K/A and are incorporated by reference herein.

(b) Pro Forma Financial Information

The following unaudited pro forma condensed combined financial statements, together with related explanatory notes, showing the pro forma effect on Myriad’s financial statements, after giving effect to Myriad’s acquisition of Counsyl and other related pro forma events, are filed as Exhibit 99.3 to this Current Report on Form 8-K/A and are incorporated by reference herein: (i) balance sheet as of March 31, 2018, and (ii) statement of operations for the nine months ended March 31, 2018, and (iii) statement of operations for the fiscal year ended June 30, 2017

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(c) Exhibits

<u>Exhibit Number</u>	<u>Description</u>
2.1	<a href="#"><u>Agreement and Plan of Merger, dated May 25, 2018, by and among the Registrant, Myriad Merger Sub, Inc., a wholly owned subsidiary of the Registrant, Counsyl Inc., and Fortis Advisors LLC. (previously filed as Exhibit 10.18 to the Annual Report on Form 10-K filed on August 24, 2018 (File No. 000-26642) and incorporated herein by reference).</u></a>
23.1	<a href="#"><u>Consent of Independent Registered Public Accounting Firm for Counsyl, Inc.</u></a>
99.1	<a href="#"><u>Audited Financial Statements of Counsyl, Inc. as of and for the year ended December 31, 2017.</u></a>
99.2	<a href="#"><u>Unaudited consolidated financial statements of Counsyl, Inc. as of March 31, 2018 and for the three-month periods ended March 31, 2018 and 2017.</u></a>
99.3	<a href="#"><u>Unaudited Pro Forma Condensed Combined Financial Statements of Myriad Genetics, Inc. and Subsidiaries.</u></a>

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**MYRIAD GENETICS, INC.**

Date: October 12, 2018

By: /s/ R. Bryan Riggsbee  
R. Bryan Riggsbee  
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-226492) and Form S-8 (333-222913, 333-215959, 333-209354, 333-193767, 333-185325, 333-179281, 333-171994, 333-164670, 333-157130, 333-150792, 333-140830, 333-131653, 333-120398 and 333-115409) of Myriad Genetics, Inc. of our report dated March 9, 2018, except for the change in the manner in which the Company accounts for debt extinguishments costs and restricted cash as discussed in Note 3 to the consolidated financial statements, as to which the date is May 9, 2018 relating to the financial statements of Counsyl, Inc., which appears in this Current Report on Form 8-K/A.

/s/ PricewaterhouseCoopers LLP

San Jose, California  
October 12, 2018

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders  
of Counsyl, Inc.

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheet of Counsyl, Inc. and its subsidiary as of December 31, 2017, and the related consolidated statements of operations and comprehensive loss, of redeemable convertible preferred stock and stockholders' deficit and of cash flows for the year then ended, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As discussed in Note 3 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers as of January 1, 2017.

***Substantial Doubt About the Company's Ability to Continue as a Going Concern***

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net stockholders' deficit that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to the matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these consolidated financial statements in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Jose, California

March 9, 2018, except for the change in the manner in which the Company accounts for debt extinguishment costs and restricted cash as discussed in Note 3 to the consolidated financial statements, as to which the date is May 9, 2018

We have served as the Company's auditor since 2013.

**Counsyl, Inc.**  
**Consolidated Balance Sheet**

	<u>December 31, 2017</u> <u>(In thousands, except share and per share data)</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 33,995
Accounts receivable, less allowance for doubtful accounts of \$863 as of December 31, 2017	16,232
Inventory	3,863
Prepaid expenses and other current assets	3,637
Total current assets	57,727
Property and equipment, net	14,133
Other assets	752
Total assets	<u>\$ 72,612</u>
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT</b>	
Current liabilities:	
Accounts payable	\$ 4,182
Accrued liabilities	12,920
Lease payable, current	1,051
Total current liabilities	18,153
Lease payable, noncurrent	1,718
Long-term debt, noncurrent	66,901
Deferred rent, noncurrent	2,343
Put option liability	2,126
Common stock warrant liability	10,650
Redeemable convertible preferred stock warrant liability	1,601
Total liabilities	<u>103,492</u>
Commitments and contingencies (Note 7)	
Redeemable convertible preferred stock; \$0.001 par value, 14,431,477 shares authorized; 13,299,837 shares issued and outstanding; liquidation preference of \$91,561 at December 31, 2017.	90,474
Stockholders' deficit:	
Common stock, \$0.001 par value, 90,000,000 shares authorized; 46,884,067 issued and outstanding at December 31, 2017	18
Additional paid-in capital	28,533
Accumulated deficit	(149,905)
Total stockholders' deficit	<u>(121,354)</u>
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	<u>\$ 72,612</u>

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

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**Consolidated Statement of Operations and Comprehensive Loss**

	<b>Year ended December 31, 2017</b>
	<b>(In thousands, except share and per share data)</b>
Revenue	\$ 123,985
Cost of revenue	55,280
Gross profit	68,705
Operating expenses:	
Sales and marketing	46,655
Research and development	23,266
General and administrative	29,092
Total operating expenses	99,013
Loss from operations	(30,308)
Interest expense	(5,952)
Other income (expense), net	302
Loss on extinguishment of debt	(1,301)
Net loss attributable to common stockholders	\$ (37,259)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.80)
Weighted average shares used to compute basic and diluted net loss per share attributable to common stockholders	46,469,219

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



**Consolidated Statement of Redeemable Convertible Preferred Stock and Stockholders' Deficit**

(In thousands)	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
<b>Balance at January 1, 2017</b>	13,300	\$ 90,474	46,259	\$ 17	\$ 27,486	—	\$ (114,503)	\$ (87,000)
Net loss	—	—	—	—	—	—	(37,259)	(37,259)
Issuance of shares upon exercise of stock options	—	—	625	1	469	—	—	470
Cumulative effect adjustment relating to adoption of ASC 606	—	—	—	—	—	—	1,875	1,875
Cumulative effect adjustment relating to adoption of ASC 2016-09	—	—	—	—	18	—	(18)	—
Stock-based compensation expense	—	—	—	—	560	—	—	560
<b>Balance at December 31, 2017</b>	<u>13,300</u>	<u>\$ 90,474</u>	<u>46,884</u>	<u>\$ 18</u>	<u>\$ 28,533</u>	<u>—</u>	<u>\$ (149,905)</u>	<u>\$ (121,354)</u>

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

**Consolidated Statement of Cash Flows**

	<b>Year ended December 31, 2017 (In thousands)</b>
<b>Cash flows from operating activities:</b>	
Net loss	\$ (37,259)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	7,681
Provision for doubtful accounts	115
Stock-based compensation	560
Loss on disposal of property and equipment	20
Loss on debt extinguishment	1,301
Accrued interest expense and amortization of debt discount and issuance costs	(753)
Change in fair value of redeemable convertible preferred stock warrant liability	(545)
Change in fair value of redeemable convertible common stock warrant liability	200
Change in fair value of put option	56
Changes in operating assets and liabilities:	
Accounts receivable	(2,052)
Inventory	(801)
Other assets	(1,233)
Accounts payable	2,325
Accrued compensation	3,525
Accrued other liabilities	912
Deferred rent	952
Net cash used in operating activities	(24,996)
<b>Cash flows from investing activities:</b>	
Purchases of property and equipment	(5,666)
Sales of marketable securities	—
Net cash used in investing activities	(5,666)
<b>Cash flows from financing activities:</b>	
Principal payments of long-term lease payable	(813)
Proceeds from the exercise of stock options	470
Payment of deferred offering costs	(99)
Debt extinguishment costs	(325)
Debt issuance cost	(1,221)
Proceeds from long-term debt	80,000
Principal payments of long-term debt	(45,000)
Net cash provided by financing activities	33,012
Net increase in cash, cash equivalents and restricted cash	2,350
Cash, cash equivalents, and restricted cash at beginning of year	32,139
Cash, cash equivalents, and restricted cash at end of year	\$ 34,489
<b>Supplemental cash flow information:</b>	
Cash paid for interest	\$ 4,814
<b>Other supplemental cash flow information:</b>	
Property and equipment acquired through capital lease obligation	\$ 3,795
Purchase of property and equipment in accounts payable and accrued liabilities	\$ 376
Deferred offering costs in accounts payable and accrued liabilities	\$ 93
Cash and cash equivalents	\$ 33,995
Non-current portion of restricted cash included in other assets	494
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	\$ 34,489

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

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## Notes to Consolidated Financial Statements

### 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Counsyl, Inc. (“Counsyl” or the “Company”) was incorporated in the State of Delaware in October 2007. Counsyl operates a clinical laboratory that offers genetic tests. The Company integrates technology with custom automation in its clinical laboratory that has been certified under the Clinical Laboratory Improvement Amendments (“CLIA”), accredited by the College of American Pathologists (“CAP”), and certified by the New York State Clinical Laboratory Evaluation Program (“NYS CLEP”).

Since inception, the Company has incurred recurring annual losses from operations. The Company incurred a net loss of \$37.3 million for the year ended December 31, 2017. The Company had an accumulated deficit of \$149.9 million as of December 31, 2017. While the Company has introduced multiple products that are generating revenue, this revenue has not been sufficient to fully fund the Company’s operations. To date, in addition to the cash flows generated from its commercial sales, the Company has been funded primarily by issuance of common stock, redeemable convertible preferred stock and debt financings.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. During the year ended December 31, 2017, the Company used \$25.0 million of cash in operating activities. The Company has not achieved positive cash flow from operations, and the Company expects to incur increased sales and marketing expenses with the commercialization of new and existing products as well as increased research and development expenses as it develops new products. These conditions raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date these consolidated financial statements are issued.

The Company may seek to raise additional capital through equity offerings, debt financings, collaborations or licensing arrangements. However, there can be no guarantee that the Company will be successful in acquiring additional funding at levels sufficient to fund its operations or on terms favorable to the Company. If the Company is unsuccessful in its efforts to raise additional financing, the Company will be required to significantly reduce or cease operations. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The consolidated financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). The Company’s functional and reporting currency is the United States (“U.S.”) dollar.

#### Principles of Consolidation

The consolidated financial statements and the accompanying notes include the accounts of the Company’s wholly-owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. The Company has a wholly-owned foreign subsidiary with no activities in the periods presented.

#### 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 of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses in the consolidated financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates, including those related to estimates of inventory, useful lives for internally developed software and property and equipment, accrued liabilities, valuation of redeemable convertible preferred stock warrant liability, valuation of common stock warrant liability, provision for accounting for income taxes, revenue recognition including estimated reimbursements, bad debt expense and valuation of stock awards. Actual results could differ from these estimates.

#### Concentrations of Credit Risk

The Company is subject to credit risks related to its financial instruments including cash and cash equivalents and accounts receivable. The Company’s cash and cash equivalents are deposited with three reputable U.S. financial institutions as of December 31, 2017. Such deposits may, at times, exceed federally insured limits. The Company monitors the financial institutions where it invests its cash and cash equivalents with diversification among counterparties to mitigate exposure to any single financial institution.

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As of December 31, 2017, one customer represented 10% or more of net accounts receivable with such customer representing 17% of net accounts receivable as of December 31, 2017.

No individual customer represented 10% or more of revenue for the year ended December 31, 2017.

### **Risks and Uncertainties**

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, payer practices and policies, shifting customer demands, the emergence of competitive products, and other factors could negatively impact the Company's operating results.

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company limits its exposure to credit loss by placing its cash in financial institutions with high credit ratings. The Company's cash may consist of deposits held with banks that may at times exceed federally insured limits. The Company performs evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

The Company is subject to a number of risks similar to other companies in the early stage, including, but not limited to, the need to obtain adequate additional funding, competitors developing new technological innovations, and protection of proprietary technology.

### **Segments**

The Company's chief operating decision maker is the Chief Executive Officer. The Chief Executive Officer reviews financial information on an aggregate basis for the purposes of evaluating financial performance and allocating the Company's resources. Accordingly, the Company has determined that it has a single reportable and operating segment structure.

### **Fair Value of Financial Instruments**

The carrying amounts for financial instruments consisting of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. The redeemable convertible preferred stock warrant liability, common stock warrant and put option liability is carried at fair value based on unobservable market inputs.

The Company determines the fair value of financial assets and liabilities using the fair value hierarchy which describes three levels of inputs that may be used to measure fair value, as follows:

- Level 1—Observable inputs, such as quoted prices in active markets for identical assets and liabilities.
- Level 2—Observable inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company does not have any Level 1 or 2 instruments as of December 31, 2017. The Company's Level 3 instrument consists of the redeemable convertible preferred stock warrant liability, common stock warrant liability and put option liability associated with the Company's debt agreements.

### **Cash and Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments with stated maturities of three months or less from the date of purchase. As of December 31, 2017, cash and cash equivalents consist of cash on deposit with banks denominated in U.S. Dollars.

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**Restricted Cash**

Restricted cash is comprised of cash that is restricted as to withdrawal or use under the terms of certain contractual agreements. Restricted cash as of year ended December 31, 2017 consists of security deposits and collateral for letters of credit and is included in prepaid expenses and other current assets and other assets on the consolidated balance sheet.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable is comprised of amounts due from sales of the Company's genetic tests and is recorded net of allowance for doubtful accounts. The allowance for doubtful accounts is determined based on the Company's best estimate of the amount of probable losses in the Company's existing accounts receivable, which is based on historical write-off experience, customer creditworthiness, the age of the receivable and current market and economic conditions. The allowance for doubtful accounts was \$0.9 million as of December 31, 2017. Accounts receivable balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

**Inventory**

Inventory consists of reagents and other laboratory supplies which are used to test and process samples. Inventory is valued at the lower of cost, computed on a first-in, first-out basis, or net realizable value. The Company estimates the recoverability of its inventory by reference to internal estimates of future demands and product life cycles, including expiration.

**Property and Equipment, Net**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method, and is recorded over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the underlying assets or the term of the lease agreement. The Company expenses repairs and maintenance costs as incurred.

**Internally Developed Software**

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post-implementation phases of development as incurred. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life. The Company's policy is to amortize capitalized internal software development costs on a straight-line basis over the estimated useful life of the products of three years. The useful lives of these assets are evaluated on an annual basis and tested for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. The Company capitalized \$0.5 million for the year ended December 31, 2017, respectively. The Company presents internally developed software costs as a component of property and equipment, net on the consolidated balance sheet.

**Impairment of Long-Lived Assets**

The Company evaluates its long-lived assets for indications of possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amounts to the future undiscounted cash flows, attributable to these assets or asset groups. Should impairment exist, the impairment would be measured by the amount by which the carrying amount of the assets exceeds the projected discounted future cash flows arising from those assets. There have been no such impairments of long-lived assets as of December 31, 2017.

**Redeemable Convertible Preferred Stock**

The Company recorded the redeemable convertible preferred stock at fair value on the dates of issuance, net of issuance costs. The redeemable convertible preferred stock is recorded outside of permanent equity because while it is not mandatorily redeemable, in the event of certain events considered not solely within the Company's control, such as a merger, acquisition and sale of all or substantially all of the Company's assets (each, a "deemed liquidation event"), the redeemable convertible preferred stock will become redeemable at the option of the holders. The Company has not adjusted the carrying values of the redeemable convertible preferred stock to the liquidation preferences of such shares because it is uncertain whether or when an event would occur that would obligate the Company to pay the liquidation preferences to holders of shares of redeemable convertible preferred stock. Subsequent adjustments to the carrying values to the liquidation preferences will be made only when it becomes probable that such a liquidation event will occur.

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### **Redeemable Convertible Preferred Stock Warrants**

The Company's redeemable convertible preferred stock warrants require liability classification and accounting as the underlying redeemable convertible preferred stock is considered contingently redeemable and may obligate the Company to transfer assets to the holders at a future date under certain circumstances, such as a deemed liquidation event. The warrants are recorded at fair value upon issuance and are subject to remeasurement to fair value at each balance sheet date, with any changes in fair value recognized in the consolidated statement of operations and comprehensive loss. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise or expiration of the redeemable convertible preferred stock warrants, the completion of a deemed liquidation event, the conversion of redeemable convertible preferred stock into common stock, or until holders of the redeemable convertible preferred stock can no longer trigger a deemed liquidation event. Upon an IPO, the redeemable convertible preferred stock warrants will be automatically exercised for shares of the Company's common stock with no consideration due from the warrant holder (see Note 11).

### **Common Stock Warrants**

The Company's common stock warrants require liability classification and accounting as the Company may be required to transfer assets to settle the warrants at a future date (see Note 6). The warrants are recorded at fair value upon issuance and are subject to remeasurement to fair value at each balance sheet date, with any changes in fair value recognized in the consolidated statement of operations and comprehensive loss. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise or expiration of the common stock warrants or such time the common stock warrant will meet all criteria for equity classification. Upon an IPO, the common stock warrants will be automatically net share exercised for shares of the Company's common stock (see Note 12).

### **Put Option Liability**

The Credit Agreement and Guaranty and related agreements with Perceptive Credit Holdings LP for a secured term loan, provide Perceptive with a top-up fee payable upon exercise of the put option on common stock warrants (the "Put Option") in connection with the sale of a majority of the Company's stock or all, or substantially all, of the Company's assets (a "Sale of the Company") and prior to the consummation of an IPO. The top-up fee payable upon exercise of the Put Option and in connection with the Sale of the Company is an embedded derivative and meets the criteria requiring its bifurcation from the Credit Agreement and is accounted for as a separate derivative instrument (the "Put Option Liability"). The Put Option is recorded at fair value upon issuance and was recorded as a debt discount and reduction to the carrying value of long-term debt on the consolidated balance sheet. The Put Option is subject to remeasurement to fair value at each balance sheet date, with any changes in fair value recognized in the consolidated statement of operations and comprehensive loss. The Company will continue to adjust the Put Option liability for changes in fair value until the earlier of the consummation of an IPO or in connection with the first sale of the Company occurring during the warrants' exercise period (see Notes 6 and 13).

### **Revenue Recognition**

The Company generates revenue from sales of its tests and receives payments from payers, including commercial payers and government payers, laboratory services intermediaries and self-paying individuals. Payment from payers includes insurance reimbursement and patient out-of-pocket costs. The Company is contracted with the majority of commercial payers and enrolled with the majority of government payers across the United States, defined as in-network payers. Payment from laboratory services intermediaries is based on a fixed price per test. The fixed prices identified in contracts with laboratory services intermediaries only change if a pricing amendment is agreed upon between both parties. Payment from self-paying individuals is based on a self-pay cash price and is collected directly from patients.

Prior to the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers ("ASC 606") on January 1, 2017 (see Note 3), revenue was recognized on an accrual basis at the time the test results are delivered when there was either a contractual arrangement in place, or a reasonable estimate of reimbursement could be made. The assessment of whether a reasonable estimate could be made required significant judgment by the Company. Generally, the Company recognized revenue on an accrual basis for tests billed through in-network payers and laboratory services intermediaries. Revenue recognized on an accrual basis was net of contractual adjustments, which represented the difference between the billing rate and the reimbursement rate for payers and patients.

In the absence of contracted reimbursement coverage or the ability to reasonably estimate reimbursement, the Company recognized revenue when cash was received. The Company recognizes revenue on a cash basis for tests billed to out-of-network payers and self-paying individuals.

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Under ASC 606, effective January 1, 2017, the Company accounts for a contract with a customer when there's approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

The Company's contracts are between the Company and the patients, as patients receive the benefit of the services provided. However, the Company may have contracts with additional third-parties such as payers and laboratory services intermediaries.

The Company evaluates the promises contained in contracts with customers, in accordance with ASC 606, to determine whether promised goods or services are distinct, such that the customer can benefit from the goods or services on their own, and whether the goods or services can be separately identifiable from other goods or services in the contract. The Company evaluated the suite of services provided as part of Counsyl Complete, and has concluded that results delivery is the only distinct service that meets the definition of a performance obligation under ASC 606, and therefore the Company recognizes revenue at a single point in time: when the test results are delivered to the prescribing physician. The Company determined that the test results have been delivered, and that the customer has obtained control of the promised service, as soon as the test results report has been made available to the prescribing physician. The Company concluded that other activities, including ordering, pre-test education and coverage and transparent price estimates are not distinct services, but instead are steps in the process of delivering results, and thus do not impact the timing of revenue recognition. Genetic counseling was deemed to be immaterial in the context of the contract, and thus under the guidance of ASC 606, the Company did not assess whether this service represents a performance obligation. Thus the delivery of genetic counseling services does not impact the timing of revenue recognition as well.

The Company recognizes revenue on an accrual basis at the time the tests results are delivered, at an amount that reflects the consideration to which the Company expects to be entitled to in exchange for delivering the test results. This revenue recognition policy applies to all test result deliveries, regardless of whether the test is billed through in-network payers, out-of-network payers, laboratory services intermediaries, or self-paying individuals. For the year ended December 31, 2017, 100% of revenue was recognized on an accrual basis.

The actual consideration received by the Company often varies significantly from the amounts billed, and the determination of the expected reimbursement amount requires significant judgment and estimation by the Company. The Company estimates the variable consideration to be included in the transaction price for tests billed through in-network payers, out-of-network-payers, and self-paying individuals using the expected value method, as the Company has a large number of contracts with similar characteristics. The consideration to be included in the transaction price for tests billed to laboratory services intermediaries is fixed, and revenue is recognized at the fixed invoiced amount, if collection is probable.

From time to time, the Company receives requests for refunds due to overpayments made by payers and patients. In accordance with ASC 606-10-32-10, the Company records a refund liability at the amount received for which the Company does not expect to be entitled. Such amounts are not included in the estimated transaction price.

Countries outside of the United States, based on the billing address of customers, represented less than 1% of the Company's revenue for the year ended December 31, 2017.

### **Contract Balances**

The timing of revenue recognition may differ from the timing of billing to customers. Accounts receivable are recorded at the expected reimbursement amount. A receivable is recognized in the period the Company delivers the test results. In instances where the timing of revenue recognition differs from the timing of billing, the Company has determined that its contracts do not include a significant financing component. The Company applied the practical expedient that the promised amount of consideration need not be adjusted for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The balance of accounts receivable, net of allowance for doubtful accounts, as of December 31, 2017, is presented in the consolidated balance sheet. The Company records deferred revenue when cash payments are received in advance of delivering the test results. The balance of deferred revenue accounts of \$0.1 million as of December 31, 2017, is included in accrued liabilities in the consolidated balance sheet.

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## Research and Development

Research and development expenses include costs incurred to develop the Company's technology, further refine its laboratory testing and automation processes, develop new testing methods and protocols, to conduct studies to develop and support the clinical utility of its tests and to optimize its workflow solutions for patients and providers. These costs consist of personnel costs, including employee payroll and benefits, stock-based compensation expense; prototype materials; laboratory supplies; consulting costs; regulatory costs; and allocated overhead, including rent, information technology, depreciation and amortization, and utilities. The Company expenses all research and development costs in the periods in which they are incurred.

## Stock-Based Compensation

Stock-based compensation expense for awards granted to employees with a service condition is measured at the grant date based on the fair value of the award and it is recognized as expense on a straight-line basis over the requisite service period, which is generally over a four-year vesting period. Prior to January 1, 2017, the fair value of the portion of the award that was ultimately expected to vest was recognized as expense over the requisite service period in the consolidated statement of operations and comprehensive loss. Upon the adoption of ASU 2016-09 on January 1, 2017, the Company has elected to recognize the actual forfeitures by reducing the employee stock-based compensation expense in the same period as the forfeitures occur. Hence, the Company stopped estimating forfeitures upon the adoption of ASU 2016-09.

Stock-based compensation expense for awards granted to employees with a performance-based condition was recognized based on the probability of achieving certain performance criteria. Prior to January 1, 2017, the fair value of the portion of the award that is ultimately expected to vest was recognized as expense when it became probable that the performance criteria would be met using the accelerated attribution method. Upon the adoption of ASU 2016-09 on January 1, 2017, the Company has elected to recognize the actual forfeitures by reducing the employee stock-based compensation expense in the same period as the forfeitures occur. Hence, the Company stopped estimating forfeitures upon the adoption of ASU 2016-09.

The Company accounts for stock-based compensation arrangements with non-employees using a fair value approach. The Company believes that for stock awards issued to non-employees, the fair value of the stock award is more reliably measurable than the fair value of the services rendered. Therefore, the Company estimates the fair value of non-employee stock options using a Black-Scholes option-pricing model with appropriate inputs. The estimated fair value of non-employee stock options is remeasured on each balance sheet date over the vesting period.

## Income Taxes

The Company accounts for income taxes in accordance with the liability method. Under the liability method, deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. The provision for income taxes is comprised of the current tax liability and the change in deferred tax assets and liabilities. The Company establishes a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be recoverable against future taxable income.

Deferred tax assets and liabilities are measured using the enacted tax rates that will be in effect for the years in which those tax assets are expected to be realized or settled. The Company regularly assesses the likelihood that its deferred tax assets will be realized from recoverable income taxes or recovered from future taxable income based on the realization criteria set forth in the relevant authoritative guidance. To the extent that the Company believes any amounts are not more likely than not to be realized, the Company records a valuation allowance to reduce its deferred tax assets. The realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. If the Company subsequently realizes deferred tax assets that were previously determined to be unrealizable, the respective valuation allowance would be reversed, resulting in an adjustment to earnings in the period such determination is made.

In addition, the calculation of uncertain tax liabilities involves accounting for uncertainties at a more-likely-than-not basis while also applying a complex set of tax regulations. The Company recognized potential liabilities based on its estimate of whether, and the extent to which, additional taxes will be due. The Company accounts for uncertain tax positions in accordance with the relevant guidance, which prescribes a recognition threshold and measurement approach for uncertain tax positions taken or expected to be taken in a company's income tax return, and also provides guidance on recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The guidance utilized a two-step approach for evaluation uncertain tax positions. Step one, Recognition, requires a company to determine if the weight of available evidence indicates a tax position is more likely than not to



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be sustained upon audit. Step two, Measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement. A liability is reported for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Any interest and penalties related to unrecognized tax benefits are recorded as income tax expense.

### **Deferred Offering Costs**

Deferred offering costs, consisting of legal, accounting and other fees and costs relating to the Company's planned IPO, are recorded within other assets on the consolidated balance sheet. The deferred offering costs will be offset against the proceeds received upon the closing of the planned IPO. In the event the planned IPO is terminated, all of the deferred offering costs will be expensed within the Company's consolidated statement of operations and comprehensive loss. As of December 31, 2017, \$0.2 million of deferred offering costs were recorded as other assets on the consolidated balance sheet.

### **Net Loss per Share Attributable to Common Stockholders**

Basic net loss per common share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period, without consideration of potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and potentially dilutive securities outstanding for the period. For purposes of the diluted net loss per share calculation, the redeemable convertible preferred stock, common stock subject to repurchase, stock options, preferred and common stock option warrants, and restricted stock units are considered to be potentially dilutive securities. Basic and diluted net loss attributable to common stockholders per share is presented in conformity with the two-class method required for participating securities as the redeemable convertible preferred stock is considered a participating security. The Company's participating securities do not have a contractual obligation to share in the Company's losses. As such, the net loss was attributed entirely to common stockholders. As the Company has reported a net loss for the period presented, diluted net loss per common share is the same as basic net loss per common share for the period.

### **Recent Accounting Pronouncements Not Yet Adopted**

In July 2017, FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815) (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. This update simplifies the accounting for certain financial instruments with down round features, a provision in an equity-linked financial instrument (or embedded feature) that provides a downward adjustment of the current exercise price based on the price of future equity offerings. Down round features are common in warrants, preferred shares and convertible debt instruments issued by private companies and development-stage public companies. This update requires companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. The provisions of this update related to down rounds are effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements and related disclosures.

In May 2017, FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of this standard will have on its consolidated financial statements and related disclosures.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, including a number of optional practical expedients that entities may elect to apply.

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### 3. NEW ACCOUNTING STANDARDS

#### Statement of Cash Flows

*ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash*

*Payments.* The amendments of this standard provide guidance on eight specific cash flow issues to reduce the existing diversification in practice, including (a) debt prepayment or debt extinguishment costs; (b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (c) contingent consideration payments made after a business combination; (d) proceeds from settlement of insurance claims; (e) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (f) distributions received from equity method investees; (g) beneficial interests in securitization transactions; and (h) separately identifiable cash flows and application of the predominance principle. On January 1, 2018, the Company adopted this guidance and applied this amendment using a retrospective transition method to each period presented in the Company's consolidated statement of cash flows. As a result, net cash used in operating activities was adjusted to exclude costs associated with extinguishing debt, and such costs were reclassified to net cash provided by financing activities for the year ended December 31, 2017. Thus, the consolidated statement of cash flows for the year ended December 31, 2017 have been presented in accordance with this amendment. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements and disclosures.

*ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash.* This amendment applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This amendment should be applied using a retrospective transition method to each period presented. On January 1, 2018, the Company adopted ASU 2016-18 and applied it retrospectively to the period presented in the Company's consolidated statement of cash flows. As a result, restricted cash was included with cash and cash equivalents to reconcile amounts on the cash flows for the years ended December 31, 2017. Restricted cash amounts as of December 31, 2017 are primarily related to security deposits and collateral for letters of credit. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements and related disclosures.

#### Stock Compensation

*ASU 2016-09, Stock Compensation—Improvements to Employee Share-Based Payment Accounting.* On January 1, 2017, the Company adopted the amendments to ASC 718, which simplify accounting for share-based payment transactions. Prior to this amendment, excess tax benefits resulting from the difference between the deduction for tax purposes and the compensation costs recognized for financial reporting were not recognized until the deduction reduced taxes payable. Under the new method, the Company recognizes excess tax benefits in the current accounting period. In addition, prior to January 1, 2017, the employee share-based compensation expense was recorded net of estimated forfeiture rates and subsequently adjusted at the vesting date, as appropriate. As part of the amendment, the Company has elected to recognize the actual forfeitures by reducing the employee share-based compensation expense in the same period as the forfeitures occur. The Company has adopted these changes in accounting method using the modified retrospective method by recognizing the cumulative effect adjustment as an increase to the opening accumulated deficit as of January 1, 2017 for excess tax benefits previously unrecognized and the change in accounting for forfeited awards. The cumulative effect of the changes made to the Company's consolidated balance sheet as of January 1, 2017 for the adoption of ASU 2016-09, Stock Compensation—Improvements to Employee Share-Based Payment Accounting was immaterial.

#### Inventory

*ASU 2015-11, Inventory—Simplifying the Measurement of Inventory.* On January 1, 2017, the Company adopted the amendments to ASC 330 which simplified the measurement of inventory by replacing the lower of cost or market test with a lower of cost or net realizable value test. The adoption of the amendment did not have a material impact to the Company's consolidated financial statements and related disclosures.

## Revenue Recognition

ASU 2014-09, *Revenue—Revenue from Contracts with Customers*. On January 1, 2017, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers, and all the related amendments using the modified retrospective method for all contracts that had remaining obligations as of January 1, 2017. Topic 606 supersedes the revenue recognition requirements in ASC 605, Revenue Recognition (“Topic 605”), and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the considerations to which the entity expects to be entitled to in exchange for those goods or services. Topic 606 also includes Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. The Company has not incurred any costs in relation to contract acquisition that would be subject to capitalization under ASC 340. Any costs incurred in relation to the fulfillment of contractual obligations and capitalizable under ASC 340 is immaterial. Collectively, the Company refers to Topic 606 and Subtopic 340-40 as “ASC 606”. The Company recognized the cumulative effect of initially applying ASC 606 as a decrease to the opening balance of accumulated deficit.

The most significant impact related to the adoption of ASC 606 is that revenue is now accrued for tests billed to out-of-network payers, self-paying individuals, and a small portion of laboratory services intermediaries, that was previously recognized on a cash basis. Thus, under ASC 606, the Company recognizes all revenue on an accrual basis. With this change in revenue recognition, accounts receivable balance, as well as the allowance for doubtful accounts was increased due to all revenue being recorded on an accrual basis.

The cumulative effect of the changes made to the Company’s consolidated balance sheet as of January 1, 2017 due to the adoption of ASC 606 included any revenue that would have been recognized in fiscal year 2017 for tests completed prior to fiscal year 2017 that were on a cash basis under ASC Topic 605. The cumulative effect adjustment was as follows (in thousands):

	Balance at December 31, 2016	Adjustment due to ASC 606	Balance at January 1, 2017
<b>Assets:</b>			
Accounts receivable, net	12,421	1,875	14,296
<b>Stockholder’s deficit:</b>			
Accumulated deficit	(114,503)	1,875	(112,628)

The total impact on the Company’s consolidated statement of operations and comprehensive loss and balance sheet, is as follows (in thousands):

	As reported	Year ended December 31, 2017 Balances without adoption of ASC 606	Effect of Change, Increase/(Decrease)
<b>Revenue</b>	<u>\$ 123,985</u>	<u>\$ 125,748</u>	<u>\$ (1,763)</u>
<b>Gross profit</b>	<u>68,705</u>	<u>70,468</u>	<u>(1,763)</u>
<b>Operating expenses:</b>			
General and administrative	29,092	29,013	79
<b>Total operating expenses</b>	<u>99,013</u>	<u>98,934</u>	<u>79</u>
<b>Loss from operations</b>	<u>(30,308)</u>	<u>(28,466)</u>	<u>(1,842)</u>
<b>Net loss attributed to common stockholders</b>	<u>(37,259)</u>	<u>(35,417)</u>	<u>(1,842)</u>

	As reported	Year ended December 31, 2017 Balances without adoption of ASC 606	Effect of Change, Increase/(Decrease)
<b>Current assets:</b>			
Accounts receivable, net	16,232	16,137	95

Adoption of ASC 606 had no impact to net cash from or used in operating, investing or financing activities in the Company’s consolidated statement of cash flows.

The core principle of ASC 606 is to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled in exchange for those goods or services. This principle is achieved through applying the following five-step approach:

- *Identification of the contract, or contracts, with a customer* — A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party’s rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable based on the customer’s intent and ability to pay the promised consideration. The Company applies judgment in determining the customer’s ability and intention to pay, which is based on a variety of factors including the customer’s historical payment experience.
- *Identification of the performance obligations in the contract* — Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, the Company applies judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.
- *Determination of the transaction price* — The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer.
- *Allocation of the transaction price to the performance obligations in the contract* — If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. The Company determines the standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, the Company estimates the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.
- *Recognition of revenue when, or as, the Company satisfies a performance obligation* — The Company satisfies performance obligations either over time or at a point in time as discussed in further detail in Note 2. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

#### Disaggregation of Revenue

The following table disaggregates the Company’s revenue by major source for the year ended December 31, 2017 (in thousands):

	Year ended December 31, 2017
Revenue from tests billed through in-network payers	\$ 92,194
Revenue from tests billed through laboratory service intermediaries	18,636
Revenue from tests billed through out-of-network payers	12,204
Revenue from tests billed through self-paying individuals	951
<b>Total Revenue</b>	<b>\$ 123,985</b>

#### 4. BALANCE SHEET COMPONENTS

##### Property and Equipment, Net

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

	Useful Life (years)	As of December 31, 2017
Capitalized software development costs	3	\$ 19,640
Laboratory equipment	3	22,582
Leasehold improvements	8 - 9	8,660
Computers and equipment	2	5,118
Furniture and fixtures	3	526
Purchased software	3	244
Subtotal		\$ 56,770
Accumulated depreciation and amortization		(42,637)
Property and equipment, net		\$ 14,133

The Company recorded \$0.8 million of depreciation expense of assets under its capital leases for the year ended December 31, 2017.

There are no long-lived assets located outside of the United States as of December 31, 2017.

##### Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	As of December 31, 2017
Accrued compensation	\$ 5,927
Accrued professional services	2,764
Accrued refunds payable	1,505
Accrued royalties	1,797
Accrued other liabilities	927
Total accrued liabilities	\$ 12,920

#### 5. FAIR VALUE MEASUREMENTS

The estimated fair value of debt approximates the carrying value because the interest rate on such debt adjusts to market rates on a periodic basis. The following table represents the fair value hierarchy for the Company's financial liabilities measured at fair value on a recurring basis as of December 31, 2017 (in thousands):

	Level 1	Level 2	Level 3
<b>Balance as of December 31, 2017:</b>			
<b>Liabilities:</b>			
Common stock warrant liability	\$ —	\$ —	\$10,650
Put option liability	\$ —	\$ —	\$ 2,126
Redeemable convertible preferred stock warrant liability	\$ —	\$ —	\$ 1,601
Total	\$ —	\$ —	\$14,377

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial instruments (in thousands):

	<b>Redeemable Convertible Preferred Stock Warrant Liability</b>	<b>Common Stock Warrant Liability</b>	<b>Put option liability</b>
<b>Fair value as of January 1, 2017</b>	\$ 2,146	\$ —	\$ —
Issuance of financial instruments	—	10,450	2,070
Change in fair value included in other income (expense), net	(545)	200	56
<b>Fair value as of December 31, 2017</b>	<u>\$ 1,601</u>	<u>\$ 10,650</u>	<u>\$ 2,126</u>

## 6. LONG-TERM DEBT

In October 2011, the Company entered into a loan and security agreement with Venture Lending & Leasing VI, Inc. ("WTI") (the "WTI Agreement"). The WTI Agreement includes a \$10.0 million borrowing capacity under term loan advances. In conjunction with the WTI Agreement, the Company also issued warrants to purchase its Series B redeemable convertible preferred stock (Note 11).

In December 2013, the Company entered into a loan and security agreement with Silicon Valley Bank ("SVB") (the "2013 SVB Agreement"). The agreement includes a \$5.0 million revolving line of credit and an additional \$10.0 million of borrowing capacity under term loan advances. Upon drawing down the first tranche from SVB in December 2013, the Company terminated the loan with WTI and repaid the outstanding balance in full.

The 2013 SVB Agreement was amended in January 2015 to increase the initial term loan to \$7.6 million and revise the payment schedule such that monthly payments for the first 12 months following the amendment would consist of interest-only payments with the borrowings amortizing in 36 equal monthly payments of principal and interest thereafter. The amendment was accounted for as a modification of existing debt. No incremental expense was recorded in the Company's consolidated statement of operations and comprehensive loss as a result of the debt modification.

In August 2015, the Company entered into a loan and security agreement with Silicon Valley Bank ("SVB") and MidCap Funding III Trust ("MidCap") (the "SVB and MidCap Loan"). The agreement includes a \$5.0 million revolving line of credit from SVB and an additional \$40.0 million of borrowing capacity under term loan advances from each of SVB and MidCap, for a total of \$45.0 million of borrowing capacity.

Upon drawing down the first tranche of the loan from SVB in August 2015, the Company terminated the 2013 SVB Agreement and repaid the outstanding balance in full. The termination was accounted for as an extinguishment of debt and the Company recorded a loss of \$0.3 million, which was recognized in the consolidated statement of operations and comprehensive loss.

The term loan advances under the SVB and MidCap Loan are available in three tranches. The Company borrowed the initial tranche of \$12.0 million in August 2015, the second tranche of \$13.0 million in February 2016 and the third tranche of \$15.0 million in September 2016. The Company also drew down on the \$5.0 million revolving line of credit in August 2016. The loan was scheduled to be fully repaid by July 2020. The initial tranche term loan bears interest at 8.65% per annum, and the second and third tranche term loans each bear interest at 8.9% per annum. The revolving line of credit bears interest at the prime rate plus 0.75% per annum and was to expire in July 2018.

On November 3, 2017 (the "Closing Date"), the Company entered into a Credit Agreement and Guaranty and related agreements (the "Credit Agreement") with Perceptive Credit Holdings LP ("Perceptive") for a secured term loan of \$80.0 million and paid \$1.2 million in issuance costs and upfront fees. Upon drawing down the loan from Perceptive in November 2017, the Company terminated the SVB and MidCap loan and repaid in full the balance of its obligations under such agreement, \$43.4 million, consisting of \$41.1 million in principal and \$2.3 million in end-of-term interest and prepayment fees. The termination was accounted as an extinguishment of debt and the Company recorded a loss of \$1.3 million of previously capitalized debt discount, prepayment and other fees and issuance cost in the consolidated statement of operations and comprehensive loss. The loss on debt extinguishment is mainly due to the write-off of previously capitalized debt discount and legal and prepayment fees paid on termination.

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The Credit Agreement is payable in monthly installments of \$1.2 million starting November 2020 and a final payment of \$65.6 million on November 3, 2021. The principal amount outstanding on the loan will accrue interest at the one-month LIBOR rate (floating with a 1.50% floor) plus 9.50%.

In connection with the Credit Agreement, the Company issued a Perceptive warrant (the "Perceptive Warrant") to purchase 5,000,000 shares of the Company's common stock. The Perceptive Warrant can be exercised at (i) an exercise price equal to 50% of the per share offering price of common stock in connection with an IPO in which the Company receives more than \$50.0 million in gross proceeds and its common stock is listed on either the New York Stock Exchange or the NASDAQ Stock market (a "Perceptive Warrant IPO"), (ii) an exercise price equal to 50% of the value of the per share consideration payable to the holders of common stock as a result of the sale of the Company, and (iii) an exercise price equal to implied per share value of common stock assuming a total enterprise value for the Company of \$275.0 million during the period January 1, 2020 and prior to November 3, 2027.

The fair value of the warrants on the date of issuance was calculated at \$10.5 million and is classified as a liability on the balance sheet. Refer to Note 12 for information regarding the determination of the fair value of the warrants.

The Credit Agreement provides Perceptive with a top-up fee payable upon exercise of the Put Option in connection with the sale of a majority of the Company's stock or all, or substantially all, of the Company's assets (a "Sale of the Company") and prior to the consummation of a Perceptive Warrant IPO. If Perceptive exercises the Put Option, the purchase price per share payable by the Company is equal to the imputed per share value of a share of the Company's common stock in the Sale of the Company. Additionally, if Perceptive exercises the Put Option, the Company would be required to pay Perceptive an additional fee (the "Top-Up Fee") such that the total return to Perceptive, including all payments made as a result of the Sale of the Company, and all payments of principal, interest, prepayments fees, penalties or otherwise, and payments in respect of the Perceptive Warrant or shares issued upon the exercise of the Perceptive Warrant, is at least equal to (1) \$104.0 million if the Sale of the Company occurs prior to November 3, 2018, or (2) \$120.0 million if such Sale of the Company occurs on or after November 3, 2018. In the event that Perceptive does not exercise the Put Option in connection with a Sale of the Company, the Put Option shall expire automatically.

The Top-Up Fee payable upon exercise of the Put Option and in connection with the Sale of the Company is an embedded derivative and meets the criteria requiring its bifurcation from the Credit Agreement and is accounted for as a separate derivative instrument. The Company valued the Put Option using the Black-Scholes method, which included significant estimates regarding the probability and expected time to exercise, volatility and a discount rate. The estimated fair value of the Put Option on the date of issuance was determined to be approximately \$2.1 million and was recorded as a debt discount and recorded on the consolidated balance sheet as a reduction to the carrying value of long-term debt. The embedded derivative is remeasured each period end with changes in fair value recorded in the consolidated statement of operations and comprehensive loss.

The outstanding principal of the loan balance under the Perceptive loan was \$80.0 million as of December 31, 2017. The fair value of warrants, fair value of put option, issuance costs and upfront fees are accounted as debt discount and recorded on the consolidated balance sheet as a reduction to the carrying value of long-term debt.

Perceptive has an interest in substantially all of the Company's tangible and intangible assets, to secure any outstanding amounts under the Credit Agreement. The Credit Agreement contains customary events of default, conditions to borrowing and covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions, incur debt, incur liens and make distributions to stockholders, including the payment of dividends. In addition, the Perceptive Loan also contains a Material Adverse Change clause in which any material adverse change or effect on the business, condition, operations, or ability to perform obligations under the terms of the loan are also considered an event of default. In addition, the loan contains operating and financial covenants, including maintaining minimum levels of revenue and a minimum aggregate cash balance of \$4.0 million.

As of December 31, 2017, the Company was in compliance with regards to all financial covenants under the terms of the Credit Agreement.

Future principal repayments as of December 31, 2017, are as follows (in thousands):

	<u>Amount</u>
<b>Years ending December 31:</b>	
2020	2,400
2021	<u>77,600</u>
Total	<u>\$ 80,000</u>
Less: unamortized balance of debt discount	(13,132)
Add: accretion of end-of-term interest payment	<u>33</u>
Long-term portion, net of discount	<u>\$ 66,901</u>

## 7. COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's future minimum commitments under non-cancelable contracts as of December 31, 2017 (in thousands):

	<u>Commitments and contingencies</u>			
	<u>Operating leases</u>	<u>Capital leases</u>	<u>Minimum royalties</u>	<u>Total</u>
<b>Years ending December 31:</b>				
2018	\$ 2,909	\$1,175	\$ 100	\$ 4,184
2019	3,653	1,175	100	\$ 4,928
2020	3,776	619	100	\$ 4,495
2021	3,904	—	100	\$ 4,004
2022	4,035	—	100	\$ 4,135
2023 and thereafter	<u>10,415</u>	<u>—</u>	<u>100*</u>	<u>\$10,515</u>
	<u>\$ 28,692</u>	<u>\$2,969</u>	<u>\$ 600</u>	<u>\$32,261</u>

\* Reflects annual, ongoing minimum royalty commitment

### Operating Lease Commitments

The Company leased two buildings in South San Francisco, California. In December 2016, the Company renewed its lease for its first building, located on Kimball Way in South San Francisco. The total lease payment over the life of the lease is \$30.4 million, offset by \$2.6 million in tenant improvement allowances. The lease expires on April 30, 2025.

In May 2017, the Company renewed its lease for its second building, located on Littlefield Avenue in South San Francisco. The total lease payment over the life of the second building lease is \$9.3 million, offset by \$0.1 million in tenant improvement allowances. The lease expires on September 30, 2025.

These lease agreements contain escalation clauses whereby monthly rent increases over time. Rent expense is recognized on a straight-line basis over the lease period. Rent expense was \$3.5 million for the year ended December 31, 2017.

### Capital Lease Commitments

As of December 31, 2017, the gross amount of assets recorded under capital leases was \$6.4 million of laboratory and computer equipment. As of December 31, 2017, \$5.9 million was attributed to laboratory equipment and \$0.5 million was attributed to computer equipment. The outstanding balance of lease payable was \$2.8 million as of December 31, 2017. The equipment under this lease agreement is being depreciated over the term of the estimated useful life of the underlying asset, which is shorter than the lease term.

In 2017, the Company entered into capital lease agreements for laboratory equipment and computer equipment for \$3.8 million. The term of the capital leases are 36 months and the minimum lease payments due under the agreement are \$4.1 million.

### Minimum Royalty Commitments

On January 17, 2011, the Company entered into a non-exclusive license agreement ("Stanford License") with The Board of Trustees of the Leland Stanford Junior University ("Stanford"). The dollar amount of such royalty payment per test is tiered depending on the amount for which a given test is sold by the Company. The Company must also



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make an annual license maintenance payment of \$0.1 million, which is fully creditable against any earned royalties. The Company recorded royalty expenses of \$0.8 million under the Stanford License for the year ended December 31, 2017, which is included in cost of revenue in the consolidated statement of operations and comprehensive loss.

The term of the Stanford License extends until the expiration of the last patent that is the subject of the Stanford License, unless it is otherwise terminated early pursuant to its terms. The Company may terminate the Stanford License at any time for convenience on 30 days' notice to Stanford. Stanford may also terminate the Stanford License for specified uncured breach of the Stanford License by the Company.

On October 16, 2015, the Company entered into a supply agreement with Illumina, Inc. ("Illumina"), which was amended on January 25, 2016 and again on February 14, 2017, to revise the pricing and product offerings thereunder (the "Supply Agreement"). Under the terms of the Supply Agreement, Illumina supplies the Company certain DNA sequencing instruments and consumables, referred to as Supplied Products, for commercial use. In addition to transfer prices payable for Supplied Products, the Company is required to pay a royalty for each test that is processed using the Supplied Products for the detection of fetal chromosomal conditions. The Company recorded royalty expenses of \$5.1 million under the Supply Agreement for the year ended December 31, 2017.

The term of the Supply Agreement extends through April 1, 2018, unless extended by the parties, or it is otherwise terminated early pursuant to its terms. Each party may terminate the Supply Agreement prior to expiration upon the bankruptcy or insolvency of the other party, an uncured material breach by the other party, if such party has a reasonable basis to believe or is notified by a regulatory agency or government body that its performance under the Supply Agreement violates any law, or the other party initiates a lawsuit for patent infringement against such party. In addition, Illumina may terminate the supply agreement on specified change of control scenarios.

### **Contingencies**

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made and that such expenditures can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount.

In the normal course of business, the Company provides indemnifications of varying scope to customers against claims made by third parties arising from the use of its products. Historically, costs related to indemnification provisions have not been material and the Company is unable to estimate the maximum potential impact of these indemnification provisions on its future results of operations.

To the extent permitted under Delaware law, the Company has agreements whereby it indemnifies its directors and officers for certain events or occurrences while the director or officer is, or was serving, at the Company's request in such capacity. The indemnification period covers all pertinent events and occurrences during the director's or officer's service. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is not specified in the agreements; however, the Company has director and officer insurance coverage that reduces its exposure and enables the Company to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

### **Legal Matters**

In September 2013, the Company filed a complaint for declaratory judgment against Myriad Genetics in federal court in the Northern District of California around several patents owned, assigned or licensed to Myriad Genetics that have subject matter relating to the Company's screening for certain genes related to breast and other cancers. In June 2014, Myriad Genetics, along with co-plaintiffs Endorecherche, University of Utah Research Foundation, Trustees of the University of Pennsylvania, and HSC Research and Development Limited Partnership, countersued. As of December 31, 2016, all of the claims have been dismissed with prejudice.

From time to time, the Company may become involved in legal proceedings arising from the ordinary course of its business. The Company records a legal liability when it believes that it is probable both that a liability may be incurred and that the amount of the liability can be reasonably estimated. Significant judgment by the Company is required to determine both probability and the estimated amount. The Company does not believe it is party to any currently pending legal proceedings that will result in a material adverse effect on its business, consolidated financial position, results of operations or cash flows.

## 8. REDEEMABLE CONVERTIBLE PREFERRED STOCK

Redeemable convertible preferred stock consists of the following as of December 31, 2017 (in thousands, except per share data):

	<u>Shares Authorized</u>	<u>Original Issue Price</u>	<u>Shares Issued and Outstanding</u>	<u>Proceeds, net of issuance costs</u>	<u>Liquidation Value</u>
Series A	1,752	\$ 4.28	1,752	\$ 7,500	\$ 7,503
Series B	7,138	5.05	6,780	34,031	34,239
Series C	928	8.84	928	7,456	8,204
Series D	4,613	10.84	3,840	41,487	41,615
Balance at December 31, 2017	<u>14,431</u>		<u>13,300</u>	<u>\$ 90,474</u>	<u>\$ 91,561</u>

### Conversion

Each share of redeemable convertible preferred stock is, at the option of the holder, convertible at any time into shares of common stock, subject to certain anti-dilution adjustments (e.g., stock split, payment of stock dividends or otherwise), in accordance with the conversion formula provided in the Company's Certificate of Incorporation (one-for-one as of December 31, 2017). Each share of Series A redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series A redeemable convertible preferred stock upon the earlier of (i) immediately prior to the sale of the Company's common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), with gross proceeds of not less than \$30.0 million in aggregate, or (ii) the receipt by the Company of a written request of the holders of a majority of the outstanding shares of the Series A redeemable convertible preferred stock. Each share of Series B redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series B redeemable convertible preferred stock upon the earlier of (i) immediately prior to the sale of the Company's common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act, with gross proceeds of not less than \$30.0 million in aggregate and at a price per share of the Company common stock not less than \$15.16 (as adjusted for any stock dividend, stock split, combination of shares, reorganization, recapitalization, reclassification or similar event) (a "Qualified IPO"), or (ii) the receipt by the Company of a written request of the holders of at least 60% of the outstanding shares of the Series B redeemable convertible preferred stock. Each share of Series C redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series C redeemable convertible preferred stock upon the earlier of (i) immediately prior the sale of the Company's common stock in a Qualified IPO, or (ii) upon the receipt by the Company of a written request of the holders of a majority of the outstanding shares of the Series C redeemable convertible preferred stock. Each share of Series D redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series D redeemable convertible preferred stock upon the earlier of (i) immediately prior the sale of the Company's common stock in a Qualified IPO, or (ii) upon the receipt by the Company of a written request of the holders of a majority of the outstanding shares of the Series D redeemable convertible preferred stock. As of December 31, 2017, all series of redeemable convertible preferred stock convert into shares of common stock on a one-to-one basis.

### Dividends

Dividends are non-cumulative and are payable at a rate of 8% of the original issue price of \$4.28, \$5.05, \$8.84 and \$10.84 per share for Series A, B, C and D redeemable convertible preferred stock, respectively, when, as and if, declared by the Company's Board of Directors (the "Board"). As of December 31, 2017, no such dividends have been declared. Such dividends are in preference to any dividends to holders of common stock.

### Voting

Each share of redeemable convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted. Holders of redeemable convertible preferred stock and common stock vote as a single class.

## Liquidation Preference

Upon liquidation, dissolution or winding down of the Company, the holders of the redeemable convertible preferred stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of shares of common stock, an amount equal to the per share issue price of such series of redeemable convertible preferred stock, plus all declared and unpaid dividends on such shares (the "liquidation preference"). If available assets are insufficient to pay the full liquidation preference, the available assets will be distributed among the holders of the redeemable convertible preferred stock, on a *pari passu* and pro rata basis. After the payment of the liquidation preference, all remaining assets available for distribution will be distributed ratably among the holders of the common stock.

## Redemption and Balance Sheet Classification

The redeemable convertible preferred stock is recorded in mezzanine equity because, while it is not mandatorily redeemable, it will become redeemable at the option of the shareholders upon the occurrence of certain deemed liquidation events that are considered not solely within the Company's control.

## 9. COMMON STOCK

Common stockholders are entitled to dividends when and if declared by the Board, subject to the prior rights of the redeemable convertible preferred stockholders. The holder of each share of common stock is entitled to one vote. As of December 31, 2017, no dividends have been declared.

The Company had reserved shares of common stock, on an as-converted basis, for issuance as follows (in thousands):

	As of December 31, 2017
Conversion of Series A redeemable convertible preferred stock	1,752
Conversion of Series B redeemable convertible preferred stock	6,780
Conversion of Series C redeemable convertible preferred stock	928
Conversion of Series D redeemable convertible preferred stock	3,840
Options and RSU issued and outstanding	16,055
Remaining shares available for issuance under stock options plans	5,705
Shares issuable upon exercise of redeemable convertible preferred stock warrants	358
Shares issuable upon exercise of common stock warrants	5,000
<b>Total</b>	<b>40,418</b>

## 10. STOCK INCENTIVE PLANS

### Stock Incentive Plans

In October 2007, Board approved the 2007 Stock Plan (the "2007 Plan"). In August 2014, the Board approved the 2014 Stock Plan (the "2014 Plan"). Including the shares that were terminated under the 2007 Plan and transferred to the 2014 Plan, the Board reserved 15.7 million shares of common stock for future issuance under the 2014 Plan. Shares cancelled or forfeited under the 2007 Plan were transferred to the 2014 Plan and are available for re-issuance.

On February 10, 2017, the Board authorized the increase of shares available for grant under the 2014 Plan by 8,433,024 shares.

Under the 2014 Plan, the Company may grant incentive stock options ("ISOs") and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units ("RSUs"). ISOs may be granted only to employees, and all other awards may be granted to Company employees and directors and to consultants, independent contractors and advisors of the Company for services rendered. Stock options generally include a one-year cliff vest of 25% of the respective award, followed by monthly vesting in equal installments over the next 36 months, and expire no later than ten years from the date of grant. The Company satisfies option exercises through the issuance of new shares.

## Stock Option Activity

A summary of stock option activity for the years ended December 31, 2017 (in thousands, except per share data):

	Number of Shares Available for Grant	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
<b>Outstanding, January 1, 2017</b>	2,401	4,210	\$ 1.75	4.16	\$ 10,077
Authorized	8,433	—			
Granted	(7,914)	30	\$ 3.78		
Exercised	—	(625)	\$ 0.75		
Forfeited	2,785	(887)	\$ 3.85		
<b>Outstanding, December 31, 2017</b>	<u>5,705</u>	<u>2,728</u>	\$ 1.16	2.39	\$ 8,401
<b>Exercisable, December 31, 2017</b>		<u>2,691</u>	\$ 1.12	2.39	\$ 8,401
<b>Options vested or expected to vest, December 31, 2017</b>		<u>2,728</u>	\$ 1.16	2.39	\$ 8,401

During the year ended December 31, 2017, the Company granted options with a weighted-average grant date fair value of \$2.10 per share.

The total intrinsic value of options exercised was \$1.9 million for the year ended December 31, 2017. The fair value of shares that vested was \$0.4 million for the year ended December 31, 2017.

As of December 31, 2017, the total unrecognized stock-based compensation expense related to unvested stock options was \$0.6 million. This cost will be amortized on a straight-line basis over a weighted average remaining period of 2.5 years.

The Company recorded stock-based compensation expense of \$0.0 million related to options granted to non-employees for the year ended December 31, 2017.

## Fair Value of Options Granted

In determining fair value of the stock options granted, the Company uses the Black–Scholes model and a single option award approach, which requires the input of subjective assumptions. These assumptions include: estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of the Company's common stock price over the expected term (expected volatility), risk-free interest rate (interest rate), expected dividends and the number of shares subject to options that will ultimately not complete their vesting requirements (forfeitures). Changes in the following assumptions can materially affect the estimate of fair value and ultimately how much stock-based compensation expense is recognized. These inputs are subjective and generally require significant analysis and judgment to develop:

- *Expected term.* The expected term is calculated using the simplified method where there is insufficient historical data about exercise patterns and post-vesting employment termination behavior. The simplified method is based on the vesting period and the contractual term for each grant, or for each vesting-tranche for awards with graded vesting. The mid-point between the vesting date and the maximum contractual expiration date is used as the expected term under this method. For awards with multiple vesting-tranches, the times from grant until the mid-points for each of the tranches may be averaged to provide an overall expected term.
- *Expected volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of its expected future stock price volatility, as the Company did not have any trading history for its common stock. For each grant, the Company measured historical volatility over a period equivalent to the expected term.
- *Risk-free interest rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of a stock award.

- *Expected dividend rate.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.
- *Estimated forfeitures.* In the periods prior to January 1, 2017, stock-based compensation expense recognized in the consolidated statements of operations and comprehensive loss was based on awards ultimately expected to vest and has been reduced for estimated forfeitures. The estimated forfeitures were based on historical voluntary termination behavior as well as analysis of actual option forfeitures. The Company estimated future forfeitures on the date of grant, and revised these estimates, if necessary, in subsequent periods if actual forfeitures differed from those estimates. Upon the adoption of ASU 2016-09 on January 1, 2017, the Company has elected to recognize the actual forfeitures by reducing the employee stock-based compensation expense in the same period as the forfeitures occur. Hence, the Company stopped estimating forfeitures upon the adoption of ASU 2016-09.

The fair value of the Company's stock options granted for the year ended December 31, 2017 was estimated using the following assumptions:

	Year ended December 31, 2017
Expected term (in years)	5.9
Expected volatility	59.0%
Risk-free interest rate	2.02%
Dividend yield	0.0%

### Restricted Stock Units

RSU activity for the year ended December 31, 2017 was as follows (in thousands, except per share data):

	Number of Shares Underlying Outstanding RSUs	Weighted Average Grant Date Fair Value
<b>Unvested, January 1, 2017</b>	7,341	\$ 3.98
Granted	7,884	\$ 3.78
Vested	—	—
Cancelled/forfeited	(1,898)	\$ 3.93
<b>Unvested, December 31, 2017</b>	<u>13,327</u>	<u>\$ 3.87</u>

During 2017, the Board approved the modification of awards granted to certain executives and directors under its 2014 Plan. Under the modified terms, stock options previously granted to certain executives were converted into RSUs on a one-to-one basis. Under the guidance of ASC 718, this modification was considered a Type II modification, as the performance condition that needs to be met in order for RSUs to vest is not considered probable until the consummation of an IPO or a change in control. The Company continued to recognize the original grant date fair value of these awards as an expense over the vesting terms of the original awards, which resulted in an additional \$0.1 million of stock based compensation during 2017. In addition, the Company accelerated the vesting of 340,000 RSUs for one executive and four directors upon their termination. Under the guidance of ASC 718, this modification was considered a Type IV modification, as vesting of the awards before and after the modification was improbable. The modification did not trigger any incremental stock based compensation expense in 2017, as these awards are still subject to a performance condition that will not be deemed probable until the consummation of an IPO or a change in control. However, the Company has remeasured the fair value of these awards on the modification dates, and will recognize the updated fair value of the awards as an expense upon the consummation of an IPO or change in control. The Company also accelerated the vesting of 86,042 options previously granted to directors, and extended the option exercise period for one director. Under the guidance of ASC 718, the acceleration of vesting for the option awards has been deemed a Type III modification, as vesting of the awards upon the modification changed from improbable to probable. On the modification date, the Company recognized \$0.1 million of stock based compensation expense due to the accelerated vesting and extension of the exercise period for one director.

As of December 31, 2017, RSUs representing 13,327,264 shares of common stock have been issued to employees and include both service- and performance-based conditions to vest in the underlying shares of common stock. Generally, the service condition will be satisfied 25% on the one-year anniversary of the vesting commencement date, and 25% on each subsequent yearly anniversary of the vesting commencement date. For RSUs issued prior to March 18, 2017, the performance condition will be satisfied on the first to occur of: (1) the date that is the earlier of (a) the six-month anniversary of the effective date of an IPO or (b) February 10th of the calendar year following the year in which the IPO was declared effective, or (2) a change in control (as defined in the 2014 Plan). On March 18, 2017, the Company reverted to the original vesting requirements so that for RSUs granted after March 18, 2017 an employee has to be employed by the Company at the time of the performance condition being satisfied in order to vest in the underlying shares. For RSUs issued after March 18, 2017, the performance condition will be satisfied on the first to occur of: (1) the date that is the earlier of (a) the six-month anniversary of the effective date of an IPO or (2) a change in control (as defined in the 2014 Plan). Stock-based compensation expense is recognized only for those RSUs that are expected to meet the service- and performance-based conditions using the accelerated attribution method. An IPO and change in control event are not deemed probable until consummated.

As of December 31, 2017, achievement of the performance condition was not probable and therefore, no stock-based compensation expense was recognized in the period presented.

During the year ended December 31, 2016, the Company conducted tender offers to allow all employees the opportunity to amend the vesting terms of their RSUs. Under the original terms, an employee had to be employed by the Company at the time of the liquidity event to vest in the underlying shares. Under the new terms effective April 1, 2016, an employee who satisfied any portion of the service-based condition vests in the underlying shares on the liquidity event regardless of whether they are employed by the Company at the liquidity event. As no expense related to the original RSUs had been recorded because the performance condition was not probable, the tender offer did not result in any incremental stock-based compensation expense at the time of the modification. For those RSUs accepted under the tender offer, the underlying RSUs are valued at the RSU fair value on the tender offer modification date.

This change is reflected in the total unrecognized compensation cost related to unvested RSUs with a performance condition disclosed above. The total unrecognized compensation cost increased by \$5.3 million related to 1,288,150 RSUs in the year ended December 31, 2017 subject to the tender offers.

#### Stock-Based Compensation Expense by Function

The following table is a summary of stock compensation expense by function recognized for the years ended December 31, 2017 (in thousands):

	Year ended December 31, 2017
Cost of revenue	\$ 31
Sales and marketing	152
Research and development	59
General and administrative	318
<b>Total stock-based compensation expense</b>	<b>\$ 560</b>

#### 11. REDEEMABLE CONVERTIBLE PREFERRED STOCK WARRANTS

The Company issued warrants to purchase shares of Series B redeemable convertible preferred stock in October 2011 in connection with the WTI Agreement (Note 6). Warrants to purchase 358,253 shares of Series B redeemable convertible preferred stock have an exercise price of \$4.28 per share and have a contractual term that ends on September 1, 2022. Upon occurrence of an IPO, the redeemable convertible preferred stock warrants will be automatically exercised for shares of the Company's common stock with no consideration due from the warrant holder. The estimated fair value of the redeemable convertible preferred stock warrants on the date of issuance of \$1.5 million was recorded as a debt discount. The redeemable convertible preferred stock warrant liability has been adjusted for the year ended December 31, 2017, based on the change in fair value in the period with changes in fair value recorded in the consolidated statement of operations and comprehensive loss. As of December 31, 2017, all of the warrants remain outstanding. The Company used the Black-Scholes option valuation model to estimate fair value of the warrants. The following assumptions were used to estimate the fair value of the redeemable convertible preferred stock warrants issued:

- *Expected Term.* The expected term represents the period for which the redeemable convertible preferred stock warrants are expected to be outstanding, which is estimated based on expected time to an IPO or change in control.

- *Expected Volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of the Company's expected future stock price volatility, as it did not have any trading history for the Company's redeemable convertible preferred stock. The Company has measured historical volatility over a period equivalent to the expected term. The Company believes that historical volatility provides a reasonable estimate of future expected volatility.
- *Risk-Free Interest Rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the warrants.
- *Expected Dividends.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.
- *Fair Value of Redeemable Convertible Preferred Stock.* The fair value of the shares of redeemable convertible preferred stock underlying the redeemable convertible preferred stock warrants has been determined by management at the end of each reporting period by considering a number of objective and subjective factors, including valuation of comparable companies, sales of redeemable convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors. The fair value was determined in accordance with applicable elements of the practice aid issued by the American Institute of Certified Public Accountants entitled *Valuation of Privately Held Company Equity Securities Issued as Compensation*.

The following assumptions were used to determine the fair value of redeemable convertible preferred stock warrants:

	<b>Year ended December 31, 2017</b>
Expected term (in years)	2.0
Expected volatility	55%
Risk-free interest rate	1.89%
Dividend yield	—

Upon occurrence of an IPO, the redeemable convertible preferred stock warrants will be automatically exercised for shares of the Company's common stock with no consideration due from the warrant holder.

## 12. COMMON STOCK WARRANTS

In November 2017, in connection with the Credit Agreement, the Company issued warrants to Perceptive to purchase 5,000,000 shares of the Company's common stock (see Note 6). The estimated fair value of the common stock warrants on the date of issuance of \$10.5 million was recorded as a debt discount. The common stock warrant liability has been adjusted for the year ended December 31, 2017 based on the change in fair value in the period with changes in fair value recorded in the consolidated statement of operations and comprehensive loss.

The Company used the Black-Scholes option valuation model to estimate fair value of the common stock warrants liability. The following assumptions were used to estimate the fair value of the common stock warrants issued:

- *Expected Term.* The expected term represents the period for which the common stock warrants are expected to be outstanding, which is estimated based on expected time to an IPO or change in control.
- *Expected Volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of the Company's expected future stock price volatility, as it did not have any trading history for the Company's common stock. The Company has measured historical volatility over a period equivalent to the expected term. The Company believes that historical volatility provides a reasonable estimate of future expected volatility.
- *Risk-Free Interest Rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the warrants.

- *Expected Dividends.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.
- *Fair Value of Common Stock.* As the common stock is not publicly traded, the Company must estimate its fair value. The fair value of common stock was determined on a periodic basis by the Company's board of directors, with the assistance of an independent third-party valuation firm.

The following assumptions were used to determine the fair value of common stock warrants:

	<u>As of</u> <u>November 3, 2017</u>	<u>Year ended</u> <u>December 31, 2017</u>
Expected term (in years)	2.0	2.0
Expected volatility	55%	55%
Risk-free interest rate	1.89%	1.89%
Dividend yield	—	—

### 13. PUT OPTION LIABILITY

The Credit Agreement provides the holders a Put Option. The Put Option is valued using a framework that isolates the cash flow(s) associated with the Put Option. The present value equivalent is the estimated value of the Put Option. The method considers probability estimates of 50% that sale of Company will happen within first year from the close of the loan and 50% that sale will happen between year 1 and year 2. The probability weighted value is discounted at a 17% factor that the Company will be sold in a private deal.

The Company used the Black-Scholes option valuation model to estimate fair value of the Put Option liability under each scenario and applied the probability estimates to calculated values under each scenario. The following assumptions were used to estimate the fair value of the Put Option:

- *Expected Term.* The expected term represents the period for which the Put Option liability is expected to be outstanding, which is estimated based on expected time to change in control.
- *Expected Volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of the Company's expected future stock price volatility, as it did not have any trading history for the Company's common stock. The Company has measured historical volatility over a period equivalent to the expected term. The Company believes that historical volatility provides a reasonable estimate of future expected volatility.
- *Risk-Free Interest Rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the warrants.
- *Expected Dividends.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.
- *Fair Value of Common Stock.* As the common stock is not publicly traded, the Company must estimate its fair value. The fair value of common stock was determined on a periodic basis by the Company's board of directors, with the assistance of an independent third-party valuation firm.



The following assumptions were used to determine the fair value of the Put Option liability:

	As of November 3, 2017 <u>If sold in year 1</u>	As of November 3, 2017 <u>If sold in year 2</u>	As of December 31, 2017 <u>If sold in year 1</u>	As of December 31, 2017 <u>If sold in year 2</u>
Expected term (in years)	1	2	0.83	1.83
Expected volatility	47%	51%	41%	40%
Risk-free interest rate	1.49%	1.63%	1.68%	1.87%
Dividend yield	—	—	—	—

#### 14. INCOME TAXES

Due to the ongoing operating losses and the inability to recognize any income tax benefit, there is no provision for income taxes in any period presented in the consolidated financial statement. Since inception, the Company has only generated pretax losses in the United States and has not generated any pretax income or loss outside the United States.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering the U.S. corporate income tax rates and implementing a territorial tax system. The corporate tax rate will be reduced from 35% to 21% for tax years beginning after December 31, 2017. This will affect the value of the Company's deferred tax asset with a corresponding offset to valuation allowance. The Tax Act also limits the amount of net operating losses that can be used to reduce taxable income to 80% for net operating losses generated for periods beginning after December 31, 2017 and certain provisions exist on which to allow accelerated expensing of equipment for a portion of 2017 and for future years. Existing net operating losses, arising in years on or before December 31, 2017 are not affected by the Tax Act. Due to the complexity of the provision for accelerated expensing of property and the lack of the current guidance, under the guidance of Staff Accounting Bulletin 118, the Company has taken the provisional amount of \$2.7 million as the bonus depreciation, for which the accounting is incomplete but a reasonable estimate can be determined. Provisional amounts or adjustments to provisional amounts identified in the measurement period, as defined, would be included as an adjustment to tax expense or benefit from continuing operations in the period the amounts are determined. The Company has determined a reasonable estimate for the tax reform effects, and reported the estimates as a provisional amount in its financial statements for which the accounting under ASC Topic 740 is completed. The Company will finalize the calculation in 2018.

The Company's primary tax jurisdictions are the United States and California. The Company's tax years from 2012 through 2017 will remain open for examination by the federal and state authorities for three and four years, respectively, from the date of utilization of any net operating loss or tax credits. The Company is not currently subject to income tax examinations by any authority.

The provision for income taxes differ from the amount computed by applying the statutory federal income tax rates as follows, for the year ended December 31, 2017:

	<b>Year ended</b>
	<b>December 31, 2017</b>
Benefit computed at federal statutory rates	(34%)
State income taxes, net of federal tax effect	(3%)
Permanent differences	1%
Tax credits	(8%)
Change in valuation allowance	1%
Rate Differential Impact on Tax Cuts and Jobs Act	43%
Provision for income taxes	<u>0%</u>

Components of net deferred tax assets as of December 31, 2017 are as follows (in thousands):

	<b>Year ended</b>
	<b>December 31, 2017</b>
<b>Deferred Tax Assets</b>	
Net operating losses	\$ 31,457
Research and development credits	5,737
Accruals and reserves	<u>1,464</u>
Gross deferred tax assets	38,658
Valuation allowance	<u>(38,114)</u>
Total deferred tax assets	<u>\$ 544</u>
<b>Deferred Tax Liabilities</b>	
Depreciation and amortization	\$ (544)
Gross deferred tax liabilities	<u>(544)</u>
Total net deferred tax assets (liabilities)	<u>—</u>

The Company has established a full valuation allowance of \$38.1 million for December 31, 2017, against its net deferred tax assets due to the uncertainty surrounding realization of such assets. The valuation allowance increased by \$1.1 million in 2017 primarily due to NOL expirations and tax rate change impact.

On March 30, 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Accounting, (“ASU 2016-09”). The required adoption period is for financial statements issued for annual periods beginning after December 15, 2016. The Company adopted ASU 2016-09 in the first quarter of 2017 using a modified retrospective approach. As a result of adoption, the Company’s federal and state net operating losses have been adjusted by excess tax benefits of \$1.0 million. Due to a full valuation allowance on all DTAs, there is no impact to the statement of financial position.

As of December 31, 2017, the Company had net operating loss carryforwards of \$128.2 million, \$29.5 million and \$44.2 million available to reduce future taxable income, if any, for federal, California and all other states income tax purposes, respectively. The federal net operating loss carryforwards begin expiring in 2029, California net operating loss carryforwards begin expiring in 2029. All other states begin to expire at various periods ranging from 5 to 20 years, 2018 through 2029 respectively.

Utilization of the net operating loss carry-forwards and other tax attributes, such as research and development tax credits may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of the net operating loss carryforwards and other tax attributes before utilization. Since our formation, we have raised capital through the issuance of capital stock on several occasions, which separately or combined with the purchasing stockholders’ subsequent disposition of those shares, may have resulted in such ownership changes, or could result in ownership changes in the future.

As of December 31, 2017, the Company had research and development credit carryforwards of \$4.0 million and \$4.0 million available to reduce future taxable income, net of ASC 740-10 reserves, for federal and state income tax purposes, respectively. The federal credit carryforwards begin expiring in 2029, and the state credits carryforward indefinitely.

On January 1, 2009, the Company adopted the provision of ASC 740-10, Accounting for Uncertainty in Income Taxes. ASC 740-10 prescribes a comprehensive model for the recognition, measurement, presentation and disclosure in financial statements of any uncertain tax positions that have been taken or expected to be taken on a tax return. As of December 31, 2017, the Company had unrecognized tax benefits of \$1.6 million.

The beginning and ending unrecognized tax benefits amounts are as follows (in thousands):

	Year ended December 31, 2017
Beginning balance	\$ 713
Additions for tax positions related to prior year	662
Additions for tax positions related to current year	339
Reductions for tax positions related to prior year	(111)
Reductions for tax positions related to current year	—
Ending balance	<u>\$ 1,603</u>

It is the Company’s policy to include penalties and interest expense related to income taxes as components of provision for income taxes as necessary. Management determined that no accrual for interest and penalties was required as of December 31, 2017.

As a result of the reduction in the corporate income tax rate, the Company revalued its net deferred tax asset at December 31, 2017. This resulted in a reduction in the value of the net deferred tax asset of approximately \$16.0 million, which was offset by the change in valuation allowance of \$16.0 million due to the Company’s full valuation allowance position.

## 15. NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share data):

	<b>Year ended</b> <b>December 31, 2017</b>
Net loss attributable to common stockholders	\$ (37,259)
Weighted average shares used to compute basic and diluted net loss per share attributable to common stockholders	<u>46,469,219</u>
Net loss per share attributable to common stockholders, basic and diluted:	<u>\$ (0.80)</u>

The following outstanding shares of potentially dilutive securities were excluded from the computation of diluted net loss per share attributable to common stockholders for the period presented because including them would have been antidilutive:

	<b>Year ended</b> <b>December 31, 2017</b>
Stock options issued and outstanding under stock options plans	2,727,764
Unvested RSUs	13,327,264
Series B redeemable convertible preferred stock warrant	358,253
Common stock warrant	5,000,000
Conversion of redeemable convertible preferred stock	<u>13,299,837</u>
Total	<u>34,713,118</u>

## 16. DEFINED CONTRIBUTION PLAN

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering substantially all employees over the age of 21 years. Contributions made by the Company are voluntary and are determined annually by the Board subject to the maximum allowable amount under federal tax regulations. The Company has made no contributions to the plan since its inception.

## 17. SUBSEQUENT EVENTS

The Company has reviewed and evaluated subsequent events through March 9, 2018, the date the audited consolidated financial statements were issued. For the reissuance of these consolidated financial statements, the Company has reviewed and updated subsequent events through May 9, 2018.

On February 27, 2018 the board approved a 2018 Equity Incentive Plan, as well as a 2018 Employee Stock Purchase Plan.

**Counsyl, Inc.**  
**Condensed Consolidated Balance Sheets**  
**Unaudited**

	December 31, 2017	March 31, 2018 unaudited
	(In thousands, except share and per share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 33,995	\$ 23,627
Accounts receivable, less allowance for doubtful accounts of \$863 as of December 31, 2017 and \$685 as of March 31, 2018	16,232	21,721
Inventory	3,863	3,841
Prepaid expenses and other current assets	3,637	4,599
Total current assets	57,727	53,788
Property and equipment, net	14,133	13,088
Other assets	752	3,067
Total assets	\$ 72,612	\$ 69,943
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 4,182	\$ 3,157
Accrued liabilities	12,920	14,143
Lease payable, current	1,051	1,066
Deferred rent, current	—	57
Total current liabilities	18,153	18,423
Lease payable, noncurrent	1,718	1,446
Long-term debt, noncurrent	66,901	67,772
Deferred rent, noncurrent	2,343	2,913
Put option liability	2,126	2,090
Common stock warrant liability	10,650	10,700
Redeemable convertible preferred stock warrant liability	1,601	1,701
Total liabilities	103,492	105,045
Commitments and contingencies (Note 7)		
Redeemable convertible preferred stock; \$0.001 par value, 14,431,477 shares authorized; 13,299,837 shares issued and outstanding; liquidation preference of \$91,561 at December 31, 2017 and 14,431,477 shares authorized; liquidation preference of \$91,561 at March 31, 2018.	90,474	90,474
Stockholders' deficit:		
Common stock, \$0.001 par value, 90,000,000 shares authorized; 46,884,067 issued and outstanding at December 31, 2017; 90,000,000 shares authorized; 47,431,728 issued and outstanding at March 31, 2018.	18	19
Additional paid-in capital	28,533	28,616
Accumulated deficit	(149,905)	(154,211)
Total stockholders' deficit	(121,354)	(125,576)
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	\$ 72,612	\$ 69,943

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

**Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**Unaudited**

	Three months ended March 31,	
	2017	2018
	(In thousands, except share and per share data)	
Revenue	\$ 29,003	\$ 39,087
Cost of revenue	12,879	15,656
Gross profit	16,124	23,431
Operating expenses:		
Sales and marketing	11,709	11,379
Research and development	5,418	5,362
General and administrative	6,517	7,812
Total operating expenses	23,644	24,553
Loss from operations	(7,520)	(1,122)
Interest expense	(1,136)	(3,141)
Other income (expense), net	—	(43)
Net loss and comprehensive loss	\$ (8,656)	\$ (4,306)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.19)	\$ (0.09)
Weighted average shares used to compute basic and diluted net loss per share attributable to common stockholders	46,308,416	47,417,293

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

**Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Deficit**

**Unaudited**

(In thousands)	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				
<b>Balance at December 31, 2017</b>	13,300	\$ 90,474	46,884	\$ 18	\$ 28,533	—	\$ (149,905)	\$ (121,354)
Net loss	—	—	—	—	—	—	(4,306)	(4,306)
Issuance of shares upon exercise of stock options	—	—	548	1	21	—	—	22
Stock-based compensation expense	—	—	—	—	62	—	—	62
<b>Balance at March 31, 2018</b>	<u>13,300</u>	<u>\$ 90,474</u>	<u>47,432</u>	<u>\$ 19</u>	<u>\$ 28,616</u>	<u>—</u>	<u>\$ (154,211)</u>	<u>\$ (125,576)</u>

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

**Condensed Consolidated Statements of Cash Flows Unaudited**

	<b>Three months ended March 31,</b>	
	<b>2017</b>	<b>2018</b>
	<b>(In thousands)</b>	
<b>Cash flows from operating activities:</b>		
Net loss	\$ (8,656)	\$ (4,306)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	2,067	1,754
Provision for doubtful accounts	(12)	31
Stock-based compensation	185	62
Loss on disposal of property and equipment	10	54
Accrued interest expense and amortization of debt discount and issuance costs	178	905
Change in fair value of redeemable convertible preferred stock warrant liability	—	100
Change in fair value of redeemable convertible common stock warrant liability	—	50
Change in fair value of put option	—	(36)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(1,555)	(5,520)
Inventory	(778)	22
Other assets	(1,427)	(962)
Accounts payable	2,008	(1,169)
Accrued compensation	(149)	(855)
Accrued other liabilities	564	187
Deferred rent	230	628
Net cash used in operating activities	<u>\$ (7,335)</u>	<u>\$ (9,055)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,234)	(385)
Net cash used in investing activities	<u>\$ (2,234)</u>	<u>\$ (385)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from equipment loan	1,302	—
Principal payments of equipment loan	(105)	(258)
Proceeds from the exercise of stock options	22	22
Payment of deferred offering costs	—	(692)
Net cash provided by (used in) financing activities	<u>1,219</u>	<u>\$ (928)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>\$ (8,350)</u>	<u>\$ (10,368)</u>
Cash, cash equivalents, and restricted cash at beginning of period	<u>\$ 32,139</u>	<u>\$ 34,489</u>
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 23,789</u>	<u>\$ 24,121</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 948	\$ 2,270
<b>Other supplemental cash flow information:</b>		
Property and equipment acquired through capital lease obligations	\$ 1,490	\$ —
Purchase of property and equipment in accounts payable and accrued liabilities	\$ 620	\$ 378
Deferred offering costs in accounts payable and accrued liabilities	\$ —	\$ 1,816
Cash and cash equivalents	<u>\$ 23,242</u>	<u>\$ 23,627</u>
Current portion of restricted cash included in prepaid expenses and other current assets	50	—
Non-current portion of restricted cash included in other assets	497	494
Total cash, cash equivalents, and restricted cash shown in the consolidated statement of cash flows	<u>\$ 23,789</u>	<u>\$ 24,121</u>

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



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## Notes to Condensed Consolidated Financial Statements (Unaudited)

### 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Counsyl, Inc. (“Counsyl” or the “Company”) was incorporated in the State of Delaware in October 2007. Counsyl operates a clinical laboratory that offers genetic tests. The Company integrates technology with custom automation in its clinical laboratory that has been certified under the Clinical Laboratory Improvement Amendments (“CLIA”), accredited by the College of American Pathologists (“CAP”), and certified by the New York State Clinical Laboratory Evaluation Program (“NYS CLEP”).

Since inception, the Company has incurred recurring annual losses from operations. The Company incurred a net loss of \$8.7 million and \$4.3 million for three months ended March 31, 2017 and 2018, respectively. The Company had an accumulated deficit of \$149.9 million as of December 31, 2017 and \$154.2 million as of March 31, 2018. While the Company has introduced multiple products that are generating revenue, this revenue has not been sufficient to fully fund the Company’s operations. To date, in addition to the cash flows generated from its commercial sales, the Company has been funded primarily by issuance of common stock, redeemable convertible preferred stock and debt financings.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. During the three months ended March 31, 2018, the Company used \$9.1 million of cash in operating activities. The Company has not achieved positive cash flow from operations, and the Company expects to incur increased sales and marketing expenses with the commercialization of new and existing products as well as increased research and development expenses as it develops new products. These conditions raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date these condensed consolidated financial statements are issued.

The Company may seek to raise additional capital through equity offerings, debt financings, collaborations or licensing arrangements. However, there can be no guarantee that the Company will be successful in acquiring additional funding at levels sufficient to fund its operations or on terms favorable to the Company. If the Company is unsuccessful in its efforts to raise additional financing, the Company will be required to significantly reduce or cease operations. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

These unaudited condensed consolidated financial statements should be read in conjunction the Company’s audited annual financial statements and related notes thereto for the year ended December 31, 2017. These condensed consolidated financial statements are prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). The Company’s functional and reporting currency is the United States (“U.S.”) dollar.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from these interim financial statements. However, these interim financial statements include all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary to fairly state the results of the interim period and the Company believes that the disclosures are adequate to make the information presented not misleading. Interim results are not necessarily indicative of results to be expected for the full year.

#### Principles of Consolidation

The condensed consolidated financial statements and the accompanying notes include the accounts of the Company’s wholly-owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation. The Company has a wholly-owned foreign subsidiary with no activities in the periods presented.

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## **Comprehensive Loss**

Comprehensive loss is composed of two components: net loss and other comprehensive loss. Other comprehensive loss refers to gains and losses that under U.S. GAAP are recorded as an element of stockholders' deficit, but are excluded from net loss. The Company did not record any transactions within other comprehensive loss in the periods presented and, therefore, net loss and comprehensive loss were the same for all periods presented.

## **Use of Estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses in the condensed consolidated financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates, including those related to estimates of inventory, useful lives for internally developed software and property and equipment, accrued liabilities, valuation of redeemable convertible preferred stock warrant liability, valuation of common stock warrant liability, provision for accounting for income taxes, revenue recognition including estimated reimbursements, bad debt expense and valuation of stock awards. Actual results could differ from these estimates.

## **Concentrations of Credit Risk**

The Company is subject to credit risks related to its financial instruments including cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are deposited with three reputable U.S. financial institutions as of December 31, 2017 and March 31, 2018. Such deposits may, at times, exceed federally insured limits. The Company monitors the financial institutions where it invests its cash and cash equivalents with diversification among counterparties to mitigate exposure to any single financial institution.

As of December 31, 2017, and March 31, 2018, one customer represented 10% or more of net accounts receivable with such customer representing 17% of net accounts receivable as of December 31, 2017 and 10% of net accounts receivable as of March 31, 2018.

No individual customer represented 10% or more of revenue for the three months ended March 31, 2017 and 2018.

## **Risks and Uncertainties**

The Company operates in markets that are highly competitive and rapidly changing. Significant technological changes, payer practices and policies, shifting customer demands, the emergence of competitive products, and other factors could negatively impact the Company's operating results.

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company limits its exposure to credit loss by placing its cash in financial institutions with high credit ratings. The Company's cash may consist of deposits held with banks that may at times exceed federally insured limits. The Company performs evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

The Company is subject to a number of risks similar to other companies in the early stage, including, but not limited to, the need to obtain adequate additional funding, competitors developing new technological innovations, and protection of proprietary technology.

## **Segments**

The Company's chief operating decision maker is the Chief Executive Officer. The Chief Executive Officer reviews financial information on an aggregate basis for the purposes of evaluating financial performance and allocating the Company's resources. Accordingly, the Company has determined that it has a single reportable and operating segment structure.

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### **Fair Value of Financial Instruments**

The carrying amounts for financial instruments consisting of cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. The redeemable convertible preferred stock warrant liability, common stock warrant and put option liability is carried at fair value based on unobservable market inputs.

The Company determines the fair value of financial assets and liabilities using the fair value hierarchy which describes three levels of inputs that may be used to measure fair value, as follows:

- Level 1—Observable inputs, such as quoted prices in active markets for identical assets and liabilities.
- Level 2—Observable inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company does not have any Level 1 or 2 instruments as of December 31, 2017 and March 31, 2018. The Company's Level 3 instrument consists of the redeemable convertible preferred stock warrant liability, common stock warrant liability and put option liability associated with the Company's debt agreements.

### **Cash and Cash Equivalents**

Cash equivalents consist of short-term, highly liquid investments with stated maturities of three months or less from the date of purchase. As of December 31, 2017 and March 31, 2018, cash and cash equivalents consist of cash on deposit with banks denominated in U.S. Dollars.

### **Restricted Cash**

Restricted cash is comprised of cash that is restricted as to withdrawal or use under the terms of certain contractual agreements. Restricted cash as of December 31, 2017 and March 31, 2018 consists of security deposits and collateral for letters of credit and is included in prepaid expenses and other current assets and other assets on the condensed consolidated balance sheets.

### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable is comprised of amounts due from sales of the Company's genetic tests and is recorded net of allowance for doubtful accounts. The allowance for doubtful accounts is determined based on the Company's best estimate of the amount of probable losses in the Company's existing accounts receivable, which is based on historical write-off experience, customer creditworthiness, the age of the receivable and current market and economic conditions. The allowance for doubtful accounts was \$0.9 million and \$0.7 million as of December 31, 2017 and as of March 31, 2018, respectively. Accounts receivable balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

### **Inventory**

Inventory consists of reagents and other laboratory supplies which are used to test and process samples. Inventory is valued at the lower of cost, computed on a first-in, first-out basis, or net realizable value. The Company estimates the recoverability of its inventory by reference to internal estimates of future demands and product life cycles, including expiration.

### **Property and Equipment, Net**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method and is recorded over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful lives of the underlying assets or the term of the lease agreement. The Company expenses repairs and maintenance costs as incurred.

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### **Internally Developed Software**

The Company incurs costs to develop software for internal use. The Company expenses all costs that relate to the planning and post-implementation phases as incurred. Costs incurred in the development phase are capitalized and amortized over the product's estimated useful life. The Company's policy is to amortize capitalized internal software development costs on a straight-line basis over the estimated useful life of the products of three years. The useful lives of these assets are evaluated on an annual basis and tested for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. The Company capitalized \$0.2 million for the three months ended March 31, 2018. The Company presents internally developed software costs as a component of property and equipment, net on the condensed consolidated balance sheets.

### **Impairment of Long-Lived Assets**

The Company evaluates its long-lived assets for indications of possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparison of the carrying amounts to the future undiscounted cash flows, attributable to these assets or asset groups. Should impairment exist, the impairment would be measured by the amount by which the carrying amount of the assets exceeds the projected discounted future cash flows arising from those assets. There have been no such impairments of long-lived assets as of December 31, 2017 and March 31, 2018.

### **Redeemable Convertible Preferred Stock**

The Company recorded the redeemable convertible preferred stock at fair value on the dates of issuance, net of issuance costs. The redeemable convertible preferred stock is recorded outside of permanent equity because while it is not mandatorily redeemable, in the event of certain events considered not solely within the Company's control, such as a merger, acquisition and sale of all or substantially all of the Company's assets (each, a "deemed liquidation event"), the redeemable convertible preferred stock will become redeemable at the option of the holders. The Company has not adjusted the carrying values of the redeemable convertible preferred stock to the liquidation preferences of such shares because it is uncertain whether or when an event would occur that would obligate the Company to pay the liquidation preferences to holders of shares of redeemable convertible preferred stock. Subsequent adjustments to the carrying values to the liquidation preferences will be made only when it becomes probable that such a liquidation event will occur.

### **Redeemable Convertible Preferred Stock Warrants**

The Company's redeemable convertible preferred stock warrants require liability classification and accounting as the underlying redeemable convertible preferred stock is considered contingently redeemable and may obligate the Company to transfer assets to the holders at a future date under certain circumstances, such as a deemed liquidation event. The warrants are recorded at fair value upon issuance and are subject to remeasurement to fair value at each balance sheet date, with any changes in fair value recognized in the condensed consolidated statements of operations and comprehensive loss. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise or expiration of the redeemable convertible preferred stock warrants, the completion of a deemed liquidation event, the conversion of redeemable convertible preferred stock into common stock, or until holders of the redeemable convertible preferred stock can no longer trigger a deemed liquidation event. Upon an IPO, the redeemable convertible preferred stock warrants will be automatically exercised for shares of the Company's common stock with no consideration due from the warrant holder (see Note 11).

### **Common Stock Warrants**

The Company's common stock warrants require liability classification and accounting as the Company may be required to transfer assets to settle the warrants at a future date (see Note 6). The warrants are recorded at fair value upon issuance and are subject to remeasurement to fair value at each balance sheet date, with any changes in fair value recognized in the condensed consolidated statements of operations and comprehensive loss. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise or expiration of the common stock warrants or such time the common stock warrant will meet all criteria for equity classification. Upon an IPO, the common stock warrants will be automatically net share exercised for shares of the Company's common stock (see Note 12).

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### **Put Option Liability**

The Credit Agreement and Guaranty and related agreements (the “Credit Agreement”) with Perceptive Credit Holdings LP (“Perceptive”) for a secured term loan, provide Perceptive with a top-up fee payable upon exercise of the put option on common stock warrants (the “Put Option”) in connection with the sale of a majority of the Company’s stock or all, or substantially all, of the Company’s assets (a “Sale of the Company”) and prior to the consummation of an IPO. The top-up fee payable upon exercise of the Put Option and in connection with the Sale of the Company is an embedded derivative and meets the criteria requiring its bifurcation from the Credit Agreement and is accounted for as a separate derivative instrument (the “Put Option Liability”). The Put Option is recorded at fair value upon issuance and was recorded as a debt discount and reduction to the carrying value of long-term debt on the condensed consolidated balance sheet. The Put Option is subject to remeasurement to fair value at each balance sheet date, with any changes in fair value recognized in the condensed consolidated statements of operations and comprehensive loss. The Company will continue to adjust the Put Option liability for changes in fair value until the earlier of the consummation of an IPO or in connection with the first sale of the Company occurring during the warrants’ exercise period (see Notes 6 and 13).

### **Revenue Recognition**

The Company generates revenue from sales of its tests and receives payments from payers, including commercial payers and government payers, laboratory services intermediaries and self-paying individuals. Payment from payers includes insurance reimbursement and patient out-of-pocket costs. The Company is contracted with the majority of commercial payers and enrolled with the majority of government payers across the United States, defined as in-network payers. Payment from laboratory services intermediaries is based on a fixed price per test. The fixed prices identified in contracts with laboratory services intermediaries only change if a pricing amendment is agreed upon between both parties. Payment from self-paying individuals is based on a self-pay cash price and is collected directly from patients.

Under Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“ASC 606”), effective January 1, 2017, the Company accounts for a contract with a customer when there’s approval and commitment from both parties, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable.

The Company’s contracts are between the Company and the patients, as patients receive the benefit of the services provided. However, the Company may have contracts with additional third-parties such as payers and laboratory services intermediaries.

The Company evaluates the promises contained in contracts with customers, in accordance with ASC 606, to determine whether promised goods or services are distinct, such that the customer can benefit from the goods or services on their own, and whether the goods or services can be separately identifiable from other goods or services in the contract. The Company evaluated the suite of services provided as part of Counsyl Complete, and has concluded that results delivery is the only distinct service that meets the definition of a performance obligation under ASC 606, and therefore the Company recognizes revenue at a single point in time: when the test results are delivered to the prescribing physician. The Company determined that the test results have been delivered, and that the customer has obtained control of the promised service, as soon as the test results report has been made available to the prescribing physician. The Company concluded that other activities, including ordering, pre-test education and coverage and transparent price estimates are not distinct services, but instead are steps in the process of delivering results, and thus do not impact the timing of revenue recognition. Genetic counseling was deemed to be immaterial in the context of the contract, and thus under the guidance of ASC 606, the Company did not assess whether this service represents a performance obligation. Thus, the delivery of genetic counseling services does not impact the timing of revenue recognition as well.

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The Company recognizes revenue on an accrual basis at the time the tests results are delivered, at an amount that reflects the consideration to which the Company expects to be entitled to in exchange for delivering the test results. This revenue recognition policy applies to all test result deliveries, regardless of whether the test is billed through in-network payers, out-of-network payers, laboratory services intermediaries, or self-paying individuals.

The actual consideration received by the Company often varies significantly from the amounts billed, and the determination of the expected reimbursement amount requires significant judgment and estimation by the Company. The Company estimates the variable consideration to be included in the transaction price for tests billed through in-network payers, out-of-network-payers, and self-paying individuals using the expected value method, as the Company has a large number of contracts with similar characteristics. The consideration to be included in the transaction price for tests billed to laboratory services intermediaries is fixed, and revenue is recognized at the fixed invoiced amount, if collection is probable.

From time to time, the Company receives requests for refunds due to overpayments made by payers and patients. In accordance with ASC 606-10-32-10, the Company records a refund liability at the amount received for which the Company does not expect to be entitled. Such amounts are not included in the estimated transaction price.

Countries outside of the United States, based on the billing address of customers, represented less than 1% of the Company's revenue for the three months ended March 31, 2017 and 2018.

### **Contract Balances**

The timing of revenue recognition may differ from the timing of billing to customers. Accounts receivable are recorded at the expected reimbursement amount. A receivable is recognized in the period the Company delivers the test results. In instances where the timing of revenue recognition differs from the timing of billing, the Company has determined that its contracts do not include a significant financing component. The Company applied the practical expedient that the promised amount of consideration need not be adjusted for the effects of a significant financing component as the Company expects, at contract inception, that the period between when the Company transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. The balance of accounts receivable, net of allowance for doubtful accounts, as of December 31, 2017 and March 31, 2018, is presented in the condensed consolidated balance sheets and the condensed consolidated balance sheets, respectively. The Company records deferred revenue when cash payments are received in advance of delivering the test results. The balance of deferred revenue accounts of \$0.1 million as of December 31, 2017, and as of March 31, 2018 is included in accrued liabilities in the condensed consolidated balance sheets.

### **Research and Development**

Research and development expenses include costs incurred to develop the Company's technology, further refine its laboratory testing and automation processes, develop new testing methods and protocols, to conduct studies to develop and support the clinical utility of its tests and to optimize its workflow solutions for patients and providers. These costs consist of personnel costs, including employee payroll and benefits, stock-based compensation expense; prototype materials; laboratory supplies; consulting costs; regulatory costs; and allocated overhead, including rent, information technology, depreciation and amortization, and utilities. The Company expenses all research and development costs in the periods in which they are incurred.

### **Stock-Based Compensation**

Stock-based compensation expense for awards granted to employees with a service condition is measured at the grant date based on the fair value of the award and it is recognized as expense on a straight-line basis over the requisite service period, which is generally over a four-year vesting period. Prior to January 1, 2017, the fair value of the portion of the award that was ultimately expected to vest was recognized as expense over the requisite service periods in the condensed consolidated statements of operations and comprehensive loss. Upon the adoption of ASU 2016-09 on January 1, 2017, the Company has elected to recognize the actual forfeitures by reducing the employee stock-based compensation expense in the same period as the forfeitures occur. Hence, the Company stopped estimating forfeitures upon the adoption of ASU 2016-09.

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Stock-based compensation expense for awards granted to employees with a performance-based condition was recognized based on the probability of achieving certain performance criteria. Prior to January 1, 2017, the fair value of the portion of the award that is ultimately expected to vest was recognized as expense when it became probable that the performance criteria would be met using the accelerated attribution method. Upon the adoption of ASU 2016-09 on January 1, 2017, the Company has elected to recognize the actual forfeitures by reducing the employee stock-based compensation expense in the same period as the forfeitures occur. Hence, the Company stopped estimating forfeitures upon the adoption of ASU 2016-09.

The Company accounts for stock-based compensation arrangements with non-employees using a fair value approach. The Company believes that for stock awards issued to non-employees, the fair value of the stock award is more reliably measurable than the fair value of the services rendered. Therefore, the Company estimates the fair value of non-employee stock options using a Black-Scholes option-pricing model with appropriate inputs. The estimated fair value of non-employee stock options is remeasured on each balance sheet date over the vesting period.

### **Income Taxes**

The Company accounts for income taxes using an asset and liability approach, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements but have not been reflected in the Company's taxable income. A valuation allowance is established to reduce deferred tax assets to their estimated realizable value when, in the opinion of management, it is more-likely-than-not that some portion or all of the deferred income tax assets will not be realized in the future.

The Company recognizes benefits of uncertain tax positions if it is more-likely-than-not that such positions will be sustained upon examination based solely on their technical merits, as the largest amount of benefit that is more-likely than-not to be realized upon the ultimate settlement. The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense or benefit. For the three months ended March 31, 2018, there have been no interest or penalties charged in relation to the unrecognized tax benefits.

### **Deferred Offering Costs**

Deferred offering costs, consisting of legal, accounting and other fees and costs relating to the Company's planned IPO, are recorded within other assets on the condensed consolidated balance sheets. The deferred offering costs will be offset against the proceeds received upon the closing of the planned IPO. In the event the planned IPO is terminated, all of the deferred offering costs will be expensed within the Company's condensed consolidated statements of operations and comprehensive loss. As of December 31, 2017 and March 31, 2018, \$0.2 million and \$2.5 million, respectively, of deferred offering costs were recorded as other assets on the condensed consolidated balance sheets.

### **Net Loss per Share Attributable to Common Stockholders**

Basic net loss per share attributable to common stockholders is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period, without consideration of potentially dilutive securities. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted average number of common shares and potentially dilutive securities outstanding for the period. For purposes of the diluted net loss per share calculation, the redeemable convertible preferred stock, common stock subject to repurchase, stock options, preferred and common stock option warrants and restricted stock units are considered to be potentially dilutive securities. Basic and diluted net loss attributable to common stockholders per share is presented in conformity with the two-class method required for participating securities as the redeemable convertible preferred stock is considered a participating security. The Company's participating securities do not have a contractual obligation to share in the Company's losses. As such, the net loss was attributed entirely to common stockholders. As the Company has reported a net loss for all periods presented, diluted net loss per common share is the same as basic net loss per common share for those periods.

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### Recent Accounting Pronouncements Not Yet Adopted

In February 2018, FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance permits companies to reclassify disproportionate tax effects in accumulated other comprehensive income (“AOCI”) caused by the Tax Act to retained earnings. The guidance is effective for all companies for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company will consider whether to adopt or not in a later period.

In July 2017, FASB issued ASU 2017-11, Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815) (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. This update simplifies the accounting for certain financial instruments with down round features, a provision in an equity-linked financial instrument (or embedded feature) that provides a downward adjustment of the current exercise price based on the price of future equity offerings. Down round features are common in warrants, preferred shares and convertible debt instruments issued by private companies and development-stage public companies. This update requires companies to disregard the down round feature when assessing whether the instrument is indexed to its own stock, for purposes of determining liability or equity classification. The provisions of this update related to down rounds are effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements and related disclosures.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), which is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. For public entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, including a number of optional practical expedients that entities may elect to apply. The Company is currently evaluating the impact the adoption of this standard will have on its condensed consolidated financial statements and related disclosures.

### 3. NEW ACCOUNTING STANDARDS

#### Stock Compensation

*ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting.* On January 1, 2018, the Company prospectively adopted guidance that was issued to provide clarity and reduce both the (1) diversity in practice and (2) cost and complexity when changing the terms or conditions of share-based payment awards. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the updated guidance, a modification is defined as a change in the terms or conditions of a share-based payment award, and an entity should account for the effects of a modification unless all of the following are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation techniques that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.



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Historically, the Company's application of the modification accounting has been consistent with ASU 2017-09. Therefore, the adoption of ASU 2017-09 did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

### **Statement of Cash Flows**

*ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* The amendments of this standard provide guidance on eight specific cash flow issues to reduce the existing diversification in practice, including (a) debt prepayment or debt extinguishment costs; (b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (c) contingent consideration payments made after a business combination; (d) proceeds from settlement of insurance claims; (e) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (f) distributions received from equity method investees; (g) beneficial interests in securitization transactions; and (h) separately identifiable cash flows and application of the predominance principle. On January 1, 2018, the Company adopted this guidance and applied this amendment using a retrospective transition method to each period presented in the Company's condensed consolidated statements of cash flows. The condensed consolidated statement of cash flows for the periods ended March 31, 2017 and 2018 have been presented in accordance with this amendment. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements and disclosures.

*ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash.* This ASU applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU should be applied using a retrospective transition method to each period presented. On January 1, 2018, the Company adopted ASU 2016-18 and applied this ASU retrospectively to the periods presented in the Company's condensed consolidated statements of cash flows. As a result, restricted cash was included with cash and cash equivalents to reconcile amounts on the cash flows for the periods ended March 31, 2017 and 2018. Restricted cash amounts as of March 31, 2017 and 2018, respectively, are primarily related to security deposits and collateral for letters of credit. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements and related disclosures.

### **Disaggregation of Revenue**

The actual consideration received by the Company often varies significantly from the amounts billed, and the determination of the expected reimbursement amount requires significant judgment and estimation by the Company. The Company estimates the variable consideration to be included in the transaction price for tests billed through in-network payers, out-of-network-payers, and self-paying individuals using the expected value method, as the Company has a large number of contracts with similar characteristics.

The Company determines its estimated transaction price based on its historical collection experience, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of change. In the period ended March 31, 2018, the Company recognized \$2.7 million in revenue for tests in which the performance obligation of delivering the tests results was met in prior periods, primarily driven by changes in the estimated transaction price due to contractual adjustments, obtaining updated information from payers and patients that was unknown at the time the performance obligation was met and settlements with third party payers.

The following table disaggregates the Company's revenue by major source for the three months ended March 31, 2017 and 2018 (in thousands):

	Three months ended March 31,	
	2017	2018
Revenue from tests billed through in-network payers	\$ 21,281	\$ 30,662
Revenue from tests billed through laboratory service intermediaries	4,932	4,210
Revenue from tests billed through out-of-network payers	2,579	3,949
Revenue from tests billed through self-paying individuals	211	266
<b>Total revenue</b>	<b>\$ 29,003</b>	<b>\$ 39,087</b>

#### 4. BALANCE SHEET COMPONENTS

##### Property and Equipment, Net

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

	Useful Life (years)	As of	As of
		December 31, 2017	March 31, 2018
Capitalized software development costs	3	\$ 19,640	\$ 19,477
Laboratory equipment	3	22,582	23,045
Leasehold improvements	8 - 9	8,660	8,674
Computers and equipment	2	5,118	5,164
Furniture and fixtures	3	526	526
Purchased software	3	244	268
<b>Subtotal</b>		<b>\$ 56,770</b>	<b>\$ 57,154</b>
Accumulated depreciation and amortization		(42,637)	(44,066)
<b>Property and equipment, net</b>		<b>\$ 14,133</b>	<b>\$ 13,088</b>

The Company recorded \$0.1 million and \$0.4 million of depreciation expense of assets under its capital leases for the three months ended March 31, 2017 and 2018, respectively.

##### Accrued Liabilities

Accrued liabilities consisted of the following (in thousands):

	As of	As of
	December 31, 2017	March 31, 2018
Accrued compensation	\$ 5,927	\$ 5,119
Accrued professional services	2,764	4,311
Accrued refunds payable	1,505	1,461
Accrued royalties	1,797	1,938
Accrued other liabilities	927	1,314
<b>Total accrued liabilities</b>	<b>\$ 12,920</b>	<b>\$ 14,143</b>

## 5. FAIR VALUE MEASUREMENTS

The estimated fair value of debt approximates the carrying value because the interest rate on such debt adjusts to market rates on a periodic basis (Level 2 in the fair value hierarchy). The following table represents the fair value hierarchy for the Company's financial liabilities measured at fair value on a recurring basis as of December 31, 2017 and March 31, 2018 (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Balance as of December 31, 2017:</b>			
<b>Liabilities:</b>			
Common stock warrant liability	\$ —	\$ —	\$10,650
Put option liability	\$ —	\$ —	\$ 2,126
Redeemable convertible preferred stock warrant liability	\$ —	\$ —	\$ 1,601
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$14,377</u>
<b>Balance as of March 31, 2018:</b>			
<b>Liabilities:</b>			
Common stock warrant liability	\$ —	\$ —	\$10,700
Put option liability	\$ —	\$ —	\$ 2,090
Redeemable convertible preferred stock warrant liability	\$ —	\$ —	\$ 1,701
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$14,491</u>

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial instruments (in thousands):

	<u>Redeemable Convertible Preferred Stock Warrant Liability</u>	<u>Common Stock Warrant Liability</u>	<u>Put Option Liability</u>
<b>Fair value as of December 31, 2017</b>	<u>\$ 1,601</u>	<u>\$ 10,650</u>	<u>\$ 2,126</u>
Change in fair value included in other (income) expense, net	<u>100</u>	<u>50</u>	<u>(36)</u>
<b>Fair value as of March 31, 2018</b>	<u>\$ 1,701</u>	<u>\$ 10,700</u>	<u>\$ 2,090</u>

## 6. LONG-TERM DEBT

In October 2011, the Company entered into a loan and security agreement with Venture Lending & Leasing VI, Inc. ("WTI") (the "WTI Agreement"). The WTI Agreement includes a \$10.0 million borrowing capacity under term loan advances. In conjunction with the WTI Agreement, the Company also issued warrants to purchase its Series B redeemable convertible preferred stock (Note 11).

In December 2013, the Company entered into a loan and security agreement with Silicon Valley Bank ("SVB") (the "2013 SVB Agreement"). The agreement included a \$5.0 million revolving line of credit and an additional \$10.0 million of borrowing capacity under term loan advances. Upon drawing down the first tranche from SVB in December 2013, the Company terminated the loan with WTI and repaid the outstanding balance in full.

The 2013 SVB Agreement was amended in January 2015 to increase the initial term loan to \$7.6 million and revise the payment schedule such that monthly payments for the first 12 months following the amendment would consist of interest-only payments with the borrowings amortizing in 36 equal monthly payments of principal and interest thereafter. The amendment was accounted for as a modification of existing debt. No incremental expense was recorded in the Company's condensed consolidated statements of operations and comprehensive loss as a result of the debt modification.

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In August 2015, the Company entered into a loan and security agreement with SVB and MidCap Funding III Trust (“MidCap”) (the “SVB and MidCap Loan”). The agreement includes a \$5.0 million revolving line of credit from SVB and an additional \$40.0 million of borrowing capacity under term loan advances from each of SVB and MidCap, for a total of \$45.0 million of borrowing capacity.

Upon drawing down the first tranche of the loan from SVB in August 2015, the Company terminated the 2013 SVB Agreement and repaid the outstanding balance in full. The termination was accounted for as an extinguishment of debt and the Company recorded a loss of \$0.3 million, which was recognized in the condensed consolidated statements of operations and comprehensive loss.

The term loan advances under the SVB and MidCap Loan were available in three tranches. The Company borrowed the initial tranche of \$12.0 million in August 2015, the second tranche of \$13.0 million in February 2016 and the third tranche of \$15.0 million in September 2016. The Company also drew down on the \$5.0 million revolving line of credit in August 2016. The loan was scheduled to be fully repaid by July 2020. The initial tranche term loan bears interest at 8.65% per annum, and the second and third tranche term loans each bear interest at 8.9% per annum. The revolving line of credit bears interest at the prime rate plus 0.75% per annum and was to expire in July 2018.

On November 3, 2017 (the “Closing Date”), the Company entered into the Credit Agreement with Perceptive for a secured term loan of \$80.0 million and paid \$1.2 million in issuance costs and upfront fees. Upon drawing down the loan from Perceptive in November 2017, the Company terminated the SVB and MidCap loan and repaid in full the balance of its obligations under such agreement, \$43.4 million, consisting of \$41.1 million in principal and \$2.3 million in end-of-term interest and prepayment fees. The termination was accounted as an extinguishment of debt and the Company recorded a loss of \$1.3 million of previously capitalized debt discount, prepayment and other fees and issuance cost in the condensed consolidated statements of operations and comprehensive loss. The loss on debt extinguishment is mainly due to the write-off of previously capitalized debt discount and legal and prepayment fees paid on termination.

The Credit Agreement is payable in monthly installments of \$1.2 million starting November 2020 and a final payment of \$65.6 million on November 3, 2021. The principal amount outstanding on the loan will accrue interest at the one-month LIBOR rate (floating with a 1.50% floor) plus 9.50%.

In connection with the Credit Agreement, the Company issued a Perceptive warrant (the “Perceptive Warrant”) to purchase 5,000,000 shares of the Company’s common stock. The Perceptive Warrant can be exercised at (i) an exercise price equal to 50% of the per share offering price of common stock in connection with an IPO in which the Company receives more than \$50.0 million in gross proceeds and its common stock is listed on either the New York Stock Exchange or the NASDAQ Stock market (a “Perceptive Warrant IPO”), (ii) an exercise price equal to 50% of the value of the per share consideration payable to the holders of common stock as a result of the sale of the Company, and (iii) an exercise price equal to implied per share value of common stock assuming a total enterprise value for the Company of \$275.0 million during the period January 1, 2020 and prior to November 3, 2027.

The fair value of the warrants on the date of issuance was calculated at \$10.5 million and is classified as a liability on the balance sheet. Refer to Note 12 for information regarding the determination of the fair value of the warrants.

The Credit Agreement provides Perceptive with a top-up fee payable upon exercise of the Put Option in connection with a Sale of the Company and prior to the consummation of a Perceptive Warrant IPO. If Perceptive exercises the Put Option, the purchase price per share payable by the Company is equal to the imputed per share value of a share of the Company’s common stock in the Sale of the Company. Additionally, if Perceptive exercises the Put Option, the Company would be required to pay Perceptive an additional fee (the “Top-Up Fee”) such that the total return to Perceptive, including all payments made as a result of the Sale of the Company, and all payments of principal, interest, prepayments fees, penalties or otherwise, and payments in respect of the Perceptive Warrant or shares issued upon the exercise of the Perceptive Warrant, is at least equal to (1) \$104.0 million if the Sale of the Company occurs prior to November 3, 2018, or (2) \$120.0 million if such Sale of the Company occurs on or after November 3, 2018. In the event that Perceptive does not exercise the Put Option in connection with a Sale of the Company, the Put Option shall expire automatically.

The Top-Up Fee payable upon exercise of the Put Option and in connection with the Sale of the Company is an embedded derivative and meets the criteria requiring its bifurcation from the Credit Agreement and is accounted for as a separate derivative instrument. The Company valued the Put Option using the Black-Scholes method, which included significant estimates regarding the probability and expected time to exercise, volatility and a discount rate. The estimated fair value of the Put Option on the date of issuance was determined to be approximately \$2.1 million and was recorded as a debt discount and recorded on the condensed consolidated balance sheet as a reduction to the carrying value of long-term debt. The embedded derivative is remeasured each period end with changes in fair value recorded in the condensed consolidated statements of operations and comprehensive loss.

The outstanding principal of the loan balance under the Perceptive loan was \$80.0 million as of December 31, 2017 and March 31, 2018. The fair value of warrants, fair value of put option, issuance costs and upfront fees are accounted as debt discount and recorded on the condensed consolidated balance sheets, as a reduction to the carrying value of long-term debt.

Perceptive has an interest in substantially all of the Company's tangible and intangible assets, to secure any outstanding amounts under the Credit Agreement. The Credit Agreement contains customary events of default, conditions to borrowing and covenants, including restrictions on the Company's ability to dispose of assets, make acquisitions, incur debt, incur liens and make distributions to stockholders, including the payment of dividends. In addition, the Perceptive Loan also contains a Material Adverse Change clause in which any material adverse change or effect on the business, condition, operations, or ability to perform obligations under the terms of the loan are also considered an event of default. In addition, the loan contains operating and financial covenants, including maintaining minimum levels of revenue and a minimum aggregate cash balance of \$4.0 million.

As of December 31, 2017 and March 31, 2018, the Company was in compliance with regards to all financial covenants under the terms of the Credit Agreement.

Future principal repayments as of March 31, 2018 are as follows (in thousands):

	<u>Amount</u>
<b>As of March 31, 2018</b>	
2020	\$ 2,400
2021	77,600
Total	<u>\$ 80,000</u>
Less: unamortized balance of debt discount	(12,311)
Add: end-of-term interest payment	83
Long-term portion, net of discount	<u>\$ 67,772</u>

## 7. COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's future minimum commitments under non-cancelable contracts as of March 31, 2018 (in thousands):

Years ending December 31:	Commitments and contingencies			Total
	Operating leases	Capital leases	Minimum royalties	
2018 (remaining nine months)	\$ 2,652	\$ 881	\$ 100	\$ 3,633
2019	3,653	1,175	100	\$ 4,928
2020	3,776	619	100	\$ 4,495
2021	3,904	—	100	\$ 4,004
2022	4,035	—	100	\$ 4,135
2023 and thereafter	10,415	—	100*	\$10,515
	\$ 28,435	\$ 2,675	\$ 600	\$31,710

\* Reflects annual, ongoing minimum royalty commitment

### Operating Lease Commitments

The Company leased two buildings in South San Francisco, California. In December 2016, the Company renewed its lease for its first building, located on Kimball Way in South San Francisco. The total lease payment over the life of the lease is \$30.4 million, offset by \$2.6 million in tenant improvement allowances. The lease expires on April 30, 2025.

In May 2017, the Company renewed its lease for its second building, located on Littlefield Avenue in South San Francisco. The total lease payment over the life of the second building lease is \$9.3 million, offset by \$0.1 million in tenant improvement allowances. The lease expires on September 30, 2025.

These lease agreements contain escalation clauses whereby monthly rent increases over time. Rent expense is recognized on a straight-line basis over the lease period. Rent expense was \$0.9 million and \$0.9 million for the three months ended March 31, 2017 and 2018, respectively.

### Capital Lease Commitments

As of December 31, 2017 and March 31, 2018, the gross amount of assets recorded under capital leases was \$6.4 million, of which \$5.9 million was attributed to laboratory equipment and \$0.5 million to computer equipment. The outstanding balance of lease payable was \$2.8 million and \$2.5 million as of December 31, 2017 and March 31, 2018, respectively. The equipment under this lease agreement is being depreciated over the term of the estimated useful life of the underlying asset, which is shorter than the lease term.

In 2017, the Company entered into capital lease agreements for laboratory equipment and computer equipment for \$3.8 million. The term of the capital leases are 36 months and the minimum lease payments due under the agreement are \$4.1 million.

### Minimum Royalty Commitments

On January 17, 2011, the Company entered into a non-exclusive license agreement ("Stanford License") with The Board of Trustees of the Leland Stanford Junior University ("Stanford"). The dollar amount of such royalty payment per test is tiered depending on the amount for which a given test is sold by the Company. The Company must also make an annual license maintenance payment of \$0.1 million, which is fully creditable against any earned royalties. The Company recorded royalty expenses of \$0.2 million and \$0.2 million under the Stanford License for the three months ended March 31, 2017 and 2018, respectively, which are included in cost of revenue in the condensed consolidated statements of operations and comprehensive loss and the condensed consolidated statement of operations and comprehensive loss, respectively.

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The term of the Stanford License extends until the expiration of the last patent that is the subject of the Stanford License, unless it is otherwise terminated early pursuant to its terms. The Company may terminate the Stanford License at any time for convenience on 30 days' notice to Stanford. Stanford may also terminate the Stanford License for specified uncured breach of the Stanford License by the Company.

On October 16, 2015, the Company entered into a supply agreement with Illumina, Inc. ("Illumina"), which was amended on January 25, 2016 and again on February 14, 2017, to revise the pricing and product offerings thereunder (the "Supply Agreement"). Under the terms of the Supply Agreement, Illumina supplies the Company certain DNA sequencing instruments and consumables, referred to as Supplied Products, for commercial use. In addition to transfer prices payable for Supplied Products, the Company is required to pay a royalty for each test that is processed using the Supplied Products for the detection of fetal chromosomal conditions. The Company recorded royalty expenses of \$1.1 million and \$1.8 million under the Supply Agreement for the three months ended March 31, 2017 and 2018, respectively.

The term of the Supply Agreement extends through April 1, 2019, unless extended by the parties, or it is otherwise terminated early pursuant to its terms. Each party may terminate the Supply Agreement prior to expiration upon the bankruptcy or insolvency of the other party, an uncured material breach by the other party, if such party has a reasonable basis to believe or is notified by a regulatory agency or government body that its performance under the Supply Agreement violates any law, or the other party initiates a lawsuit for patent infringement against such party. In addition, Illumina may terminate the supply agreement on specified change of control scenarios.

### **Contingencies**

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues a liability for such matters when it is probable that future expenditures will be made and that such expenditures can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount.

In the normal course of business, the Company provides indemnifications of varying scope to customers against claims made by third parties arising from the use of its products. Historically, costs related to indemnification provisions have not been material and the Company is unable to estimate the maximum potential impact of these indemnification provisions on its future results of operations.

To the extent permitted under Delaware law, the Company has agreements whereby it indemnifies its directors and officers for certain events or occurrences while the director or officer is, or was serving, at the Company's request in such capacity. The indemnification period covers all pertinent events and occurrences during the director's or officer's service. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is not specified in the agreements; however, the Company has director and officer insurance coverage that reduces its exposure and enables the Company to recover a portion of any future amounts paid. The Company believes the estimated fair value of these indemnification agreements in excess of applicable insurance coverage is minimal.

### **Legal Matters**

In September 2013, the Company filed a complaint for declaratory judgment against Myriad Genetics in federal court in the Northern District of California around several patents owned, assigned or licensed to Myriad Genetics that have subject matter relating to the Company's screening for certain genes related to breast and other cancers. In June 2014, Myriad Genetics, along with co-plaintiffs Endorecherche, University of Utah Research Foundation, Trustees of the University of Pennsylvania, and HSC Research and Development Limited Partnership, countersued. As of December 31, 2015, all of the claims have been dismissed with prejudice.

From time to time, the Company may become involved in legal proceedings arising from the ordinary course of its business. The Company records a legal liability when it believes that it is probable both that a liability may be incurred and that the amount of the liability can be reasonably estimated. Significant judgment by the Company is required to determine both probability and the estimated amount. The Company does not believe it is party to any currently pending legal proceedings that will result in a material adverse effect on its business, condensed consolidated financial position, results of operations or cash flows.

## 8. REDEEMABLE CONVERTIBLE PREFERRED STOCK

Redeemable convertible preferred stock consists of the following as of December 31, 2017 and March 31, 2018 (in thousands, except per share data):

	Shares Authorized	Original Issue Price	Shares Issued and Outstanding	Proceeds, net of issuance costs	Liquidation Value
Series A	1,752	\$ 4.28	1,752	\$ 7,500	\$ 7,503
Series B	7,138	5.05	6,780	34,031	34,239
Series C	928	8.84	928	7,456	8,204
Series D	4,613	10.84	3,840	41,487	41,615
Balance at December 31, 2017 and March 31, 2018	<u>14,431</u>		<u>13,300</u>	<u>\$90,474</u>	<u>\$ 91,561</u>

### Conversion

Each share of redeemable convertible preferred stock is, at the option of the holder, convertible at any time into shares of common stock, subject to certain anti-dilution adjustments (e.g., stock split, payment of stock dividends or otherwise), in accordance with the conversion formula provided in the Company's Certificate of Incorporation. Each share of Series A redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series A redeemable convertible preferred stock upon the earlier of (i) immediately prior to the sale of the Company's common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), with gross proceeds of not less than \$30.0 million in aggregate, or (ii) the receipt by the Company of a written request of the holders of a majority of the outstanding shares of the Series A redeemable convertible preferred stock. Each share of Series B redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series B redeemable convertible preferred stock upon the earlier of (i) immediately prior to the sale of the Company's common stock in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act, with gross proceeds of not less than \$30.0 million in aggregate and at a price per share of the Company common stock not less than \$15.16 (as adjusted for any stock dividend, stock split, combination of shares, reorganization, recapitalization, reclassification or similar event) (a "Qualified IPO"), or (ii) the receipt by the Company of a written request of the holders of at least 60% of the outstanding shares of the Series B redeemable convertible preferred stock. Each share of Series C redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series C redeemable convertible preferred stock upon the earlier of (i) immediately prior the sale of the Company's common stock in a Qualified IPO, or (ii) upon the receipt by the Company of a written request of the holders of a majority of the outstanding shares of the Series C redeemable convertible preferred stock. Each share of Series D redeemable convertible preferred stock shall automatically be converted into shares of common stock at the conversion rate then in effect for Series D redeemable convertible preferred stock upon the earlier of (i) immediately prior the sale of the Company's common stock in a Qualified IPO, or (ii) upon the receipt by the Company of a written request of the holders of a majority of the outstanding shares of the Series D redeemable convertible preferred stock. As of December 31, 2017 and March 31, 2018, all series of redeemable convertible preferred stock convert into shares of common stock on a one-to-one basis.



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**Dividends**

Dividends are non-cumulative and are payable at a rate of 8% of the original issue price of \$4.28, \$5.05, \$8.84 and \$10.84 per share for Series A, B, C and D redeemable convertible preferred stock, respectively, when, as and if, declared by the Company's Board of Directors (the "Board"). Such dividends are in preference to any dividends to holders of common stock. As of December 31, 2017 and March 31, 2018, no such dividends have been declared.

**Voting**

Each share of redeemable convertible preferred stock is entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted. Holders of redeemable convertible preferred stock and common stock vote as a single class.

**Liquidation Preference**

Upon liquidation, dissolution or winding down of the Company, the holders of the redeemable convertible preferred stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of shares of common stock, an amount equal to the per share issue price of such series of redeemable convertible preferred stock, plus all declared and unpaid dividends on such shares (the "liquidation preference"). If available assets are insufficient to pay the full liquidation preference, the available assets will be distributed among the holders of the redeemable convertible preferred stock, on a *pari passu* and pro rata basis. After the payment of the liquidation preference, all remaining assets available for distribution will be distributed ratably among the holders of the common stock.

**Redemption and Balance Sheet Classification**

The redeemable convertible preferred stock is recorded in mezzanine equity because, while it is not mandatorily redeemable, it will become redeemable at the option of the shareholders upon the occurrence of certain deemed liquidation events that are considered not solely within the Company's control.

**9. COMMON STOCK**

Common stockholders are entitled to dividends when and if declared by the Board, subject to the prior rights of the redeemable convertible preferred stockholders. The holder of each share of common stock is entitled to one vote. As of December 31, 2017 and March 31, 2018, no dividends have been declared.

The Company had reserved shares of common stock, on an as-converted basis, for issuance as follows (in thousands):

	As of December 31, 2017	As of March 31, 2018
Conversion of Series A redeemable convertible preferred stock	1,752	1,752
Conversion of Series B redeemable convertible preferred stock	6,780	6,780
Conversion of Series C redeemable convertible preferred stock	928	928
Conversion of Series D redeemable convertible preferred stock	3,840	3,840
Options and RSU issued and outstanding	16,055	17,544
Remaining shares available for issuance under stock options plans	5,705	3,668
Shares issuable upon exercise of redeemable convertible preferred stock warrants	358	358
Shares issuable upon exercise of common stock warrants	5,000	5,000
<b>Total</b>	<b>40,418</b>	<b>39,870</b>

## 10. STOCK INCENTIVE PLANS

### Stock Incentive Plans

In October 2007, Board approved the 2007 Stock Plan (the “2007 Plan”). In August 2014, the Board approved the 2014 Stock Plan (the “2014 Plan”). Including the shares that were terminated under the 2007 Plan and transferred to the 2014 Plan, the Board reserved 15.7 million shares of common stock for future issuance under the 2014 Plan. Shares cancelled or forfeited under the 2007 Plan were transferred to the 2014 Plan and are available for re-issuance.

On February 10, 2017, the Board authorized the increase of shares available for grant under the 2014 Plan by 8,433,024 shares.

Under the 2014 Plan, the Company may grant incentive stock options (“ISOs”) and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units (“RSUs”). ISOs may be granted only to employees, and all other awards may be granted to Company employees and directors and to consultants, independent contractors and advisors of the Company for services rendered. Stock options generally include a one-year cliff vest of 25% of the respective award, followed by monthly vesting in equal installments over the next 36 months, and expire no later than ten years from the date of grant. The Company satisfies option exercises through the issuance of new shares.

On February 27, 2018 the Board approved the 2018 Equity Incentive Plan (the “2018 Plan”). The 2018 Plan will become effective on the date of IPO and no additional grants will be issued under 2014 Plan. Any awards granted under the 2014 Plan will remain subject to the terms of the 2014 Plan and applicable award agreements.

On February 27, 2018 the Board approved 2018 Employee Stock Purchase Plan (the “ESPP”). The purpose of the 2014 ESPP is to secure the services of new employees, to retain the services of existing employees and to provide incentives for such individuals to exert maximum efforts toward the Company’s success and that of the Company’s affiliates. The ESPP is intended to qualify as an “employee stock purchase plan” within the meaning of Section 423 of the Code. The ESPP would permit eligible employees to purchase the Company’s common stock through payroll deductions, which may not exceed 15% of the employee’s base compensation. Stock may be purchased under the plan at a price equal to 85% of the fair market value of the Company’s common stock on offering date or on the applicable purchase date, whichever is lower.

## Stock Option Activity

A summary of stock option activity for the three months ended March 31, 2018 is as follows (in thousands, except per share data):

	Number of Shares Available for Grant	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
<b>Outstanding, December 31, 2017</b>	5,705	2,728	\$ 1.16	2.39	\$ 8,401
Authorized	—	—			
Granted	(2,437)	—			
Exercised	—	(548)	\$ 0.04		
Forfeited	400	(7)	\$ 3.31		
<b>Outstanding, March 31, 2018</b>	<u>3,668</u>	<u>2,173</u>	\$ 1.43	2.79	\$ 6,142
<b>Exercisable, March 31, 2018</b>		<u>2,149</u>	\$ 1.41	2.79	\$ 6,130
<b>Options vested or expected to vest, March 31, 2018</b>		<u>2,173</u>	\$ 1.43	2.79	\$ 6,142

During the three months ended March 31, 2017, the Company granted options with a weighted-average grant date fair value of \$2.10. There were no options granted in the three months ended March 31, 2018.

The total intrinsic value of options exercised was \$0.2 million and \$2.3 million for the three months ended March 31, 2017 and 2018, respectively. The fair value of shares that vested was \$0.1 million and \$23,000 for the three months ended March 31, 2017 and 2018, respectively.

As of March 31, 2018, total unrecognized stock-based compensation expense related to unvested stock options was \$0.5 million. This cost will be amortized on a straight-line basis over a weighted average remaining period of 2.3 years.

Stock-based compensation expense related to options granted to non-employees for the three months ended March 31, 2017 and 2018 was \$10,000 and nil, respectively.

## Fair Value of Options Granted

In determining fair value of the stock options granted, the Company uses the Black-Scholes model and a single option award approach, which requires the input of subjective assumptions. These assumptions include: estimating the length of time employees will retain their vested stock options before exercising them (expected term), the estimated volatility of the Company's common stock price over the expected term (expected volatility), risk-free interest rate (interest rate), expected dividends and the number of shares subject to options that will ultimately not complete their vesting requirements (forfeitures). Changes in the following assumptions can materially affect the estimate of fair value and ultimately how much stock-based compensation expense is recognized. These inputs are subjective and generally require significant analysis and judgment to develop:

- *Expected term.* The expected term is calculated using the simplified method where there is insufficient historical data about exercise patterns and post-vesting employment termination behavior. The simplified method is based on the vesting period and the contractual term for each grant, or for each vesting-tranche for awards with graded vesting. The mid-point between the vesting date and the maximum contractual expiration date is used as the expected term under this method. For awards with multiple vesting-tranches, the times from grant until the mid-points for each of the tranches may be averaged to provide an overall expected term.

- *Expected volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of its expected future stock price volatility, as the Company did not have any trading history for its common stock. For each grant, the Company measured historical volatility over a period equivalent to the expected term.
- *Risk-free interest rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of a stock award.
- *Expected dividend rate.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.

There were no grants for three months ended March 31, 2018. The fair value of the Company's stock options granted for the three months ended March 31, 2017 was estimated using the following assumptions:

	<b>Three months ended March 31, 2017</b>
Expected term (in years)	5.9
Expected volatility	59.0%
Risk-free interest rate	2.02%
Dividend yield	0.0%

### Restricted Stock Units

RSU activity for the three months ended March 31, 2018 was as follows (in thousands, except per share data):

	<b>Number of Shares Underlying Outstanding RSUs</b>	<b>Weighted Average Grant Date Fair Value</b>
<b>Unvested, December 31, 2017</b>	<b>13,327</b>	<b>\$ 3.87</b>
Granted	2,437	\$ 4.26
Vested	—	—
Cancelled/forfeited	(393)	\$ 3.84
<b>Unvested, March 31, 2018</b>	<b>15,371</b>	<b>\$ 3.93</b>

As of December 31, 2017 and March 31, 2018, RSUs representing 13,327,264 and 15,371,511 shares of common stock have been issued to employees and include both service- and performance-based conditions to vest in the underlying shares of common stock. Generally, the service condition will be satisfied 25% on the one-year anniversary of the vesting commencement date, and 25% on each subsequent yearly anniversary of the vesting commencement date. For RSUs issued prior to March 18, 2017, the performance condition will be satisfied on the first to occur of: (1) the date that is the earlier of (a) the six-month anniversary of the effective date of an IPO or (b) February 10th of the calendar year following the year in which the IPO was declared effective, or (2) a change in control (as defined in the 2014 Plan). For RSUs issued prior to March 18, 2017, an employee who satisfied any portion of the service-based condition vests in the underlying shares on the liquidity event regardless of whether they are employed by the Company at the date of IPO or change in control. On March 18, 2017, the Company changed the terms for RSUs granted after March 18, 2017, requiring an employee to be employed by the Company at the time the performance condition is satisfied in order to vest in the underlying shares.

For RSUs issued after March 18, 2017, the performance condition will be satisfied on the first to occur of: (1) the date that is the earlier of (a) the six-month anniversary of the effective date of an IPO or (2) a change in control (as defined in the 2014 Plan). Stock-based compensation expense is recognized only for those RSUs that are expected to meet the service- and performance-based conditions using the accelerated attribution method. An IPO or change in control event are not deemed probable until consummated. As of December 31, 2017 and March 31, 2018, achievement of the performance condition was not probable and therefore, no stock-based compensation expense was recognized in the periods presented. If an IPO had occurred on March 31, 2018, the Company would have recognized \$33.4 million of stock-based compensation expense for all RSUs with a performance condition that had satisfied the service-based condition on that date and would have \$26.5 million of unrecognized compensation expense which is expected to be recognized over a weighted-average period of 3.3 years.

### Stock-Based Compensation Expense by Function

The following table is a summary of stock compensation expense by function recognized for the three months ended March 31, 2017 and 2018 (in thousands):

	Three months ended March 31,	
	2017	2018
Cost of revenue	\$ 12	\$ 6
Sales and marketing	64	1
Research and development	15	6
General and administrative	94	49
Total stock-based compensation expense	\$ 185	\$ 62

### 11. REDEEMABLE CONVERTIBLE PREFERRED STOCK WARRANTS

The Company issued warrants to purchase shares of Series B redeemable convertible preferred stock in October 2011 in connection with the WTI Agreement (Note 6). Warrants to purchase 358,253 shares of Series B redeemable convertible preferred stock have an exercise price of \$4.28 per share and have a contractual term that ends on September 1, 2022. Upon occurrence of an IPO, the redeemable convertible preferred stock warrants will be automatically exercised for shares of the Company's common stock with no consideration due from the warrant holder. The estimated fair value of the redeemable convertible preferred stock warrants on the date of issuance of \$1.5 million was recorded as a debt discount. The redeemable convertible preferred stock warrant liability has been adjusted for the three months ended March 31, 2017 and 2018, based on the change in fair value in those periods with changes in fair value recorded in the condensed consolidated statements of operations and comprehensive loss. As of March 31, 2018, all of the warrants remain outstanding. The Company used the Black-Scholes option valuation model to estimate fair value of the warrants. The following assumptions were used to estimate the fair value of the redeemable convertible preferred stock warrants issued:

- *Expected Term.* The expected term represents the period for which the redeemable convertible preferred stock warrants are expected to be outstanding, which is estimated based on expected time to an IPO or change in control.
- *Expected Volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of the Company's expected future stock price volatility, as it did not have any trading history for the Company's redeemable convertible preferred stock. The Company has measured historical volatility over a period equivalent to the expected term. The Company believes that historical volatility provides a reasonable estimate of future expected volatility.
- *Risk-Free Interest Rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the warrants.

- *Expected Dividends.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.
- *Fair Value of Redeemable Convertible Preferred Stock.* The fair value of the shares of redeemable convertible preferred stock underlying the redeemable convertible preferred stock warrants has been determined by management at the end of each reporting period by considering a number of objective and subjective factors, including valuation of comparable companies, sales of redeemable convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook, among other factors. The fair value was determined in accordance with applicable elements of the practice aid issued by the American Institute of Certified Public Accountants entitled *Valuation of Privately Held Company Equity Securities Issued as Compensation*.

The following assumptions were used to determine the fair value of redeemable convertible preferred stock warrants:

	Year ended December 31, 2017	Three months ended March 31, 2018
Expected term (in years)	2.0	2.0
Expected volatility	55%	55%
Risk-free interest rate	1.89%	2.27%
Dividend yield	—	—

Upon occurrence of an IPO, the redeemable convertible preferred stock warrants will be automatically exercised for shares of the Company's common stock with no consideration due from the warrant holder.

## 12. COMMON STOCK WARRANTS

In November 2017, in connection with the Credit Agreement, the Company issued warrants to Perceptive to purchase 5,000,000 shares of the Company's common stock (see Note 6). The estimated fair value of the common stock warrants on the date of issuance of \$10.5 million was recorded as a debt discount. The common stock warrant liability has been adjusted for the three months ended March 31, 2018 based on the change in fair value in the period with changes in fair value recorded in the condensed consolidated statements of operations and comprehensive loss.

The Company used the Black-Scholes option valuation model to estimate fair value of the common stock warrants liability. The following assumptions were used to estimate the fair value of the common stock warrants issued:

- *Expected Term.* The expected term represents the period for which the common stock warrants are expected to be outstanding, which is estimated based on expected time to an IPO or change in control.
- *Expected Volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of the Company's expected future stock price volatility, as it did not have any trading history for the Company's common stock. The Company has measured historical volatility over a period equivalent to the expected term. The Company believes that historical volatility provides a reasonable estimate of future expected volatility.
- *Risk-Free Interest Rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the warrants.

- *Expected Dividends.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.
- *Fair Value of Common Stock.* As the common stock is not publicly traded, the Company must estimate its fair value. The fair value of common stock was determined on a periodic basis by the Company's board of directors, with the assistance of an independent third-party valuation firm.

The following assumptions were used to determine the fair value of common stock warrants:

	<u>Year ended</u> <u>December 31, 2017</u>	<u>Three months ended</u> <u>March 31, 2018</u>
Expected term (in years)	2.0	2.0
Expected volatility	55%	55%
Risk-free interest rate	1.89%	2.27%
Dividend yield	—	—

### 13. PUT OPTION LIABILITY

The Credit Agreement provides the holders a Put Option. The Put Option is valued using a framework that isolates the cash flow(s) associated with the Put Option. The present value equivalent is the estimated value of the Put Option. The method considers probability estimates of 50% that sale of Company will happen within first year from the close of the loan and 50% that sale will happen between year 1 and year 2. The probability weighted value is discounted at a 17% factor that the Company will be sold in a private deal.

The Company used the Black-Scholes option valuation model to estimate fair value of the Put Option liability under each scenario and applied the probability estimates to calculated values under each scenario. The following assumptions were used to estimate the fair value of the Put Option:

- *Expected Term.* The expected term represents the period for which the Put Option liability is expected to be outstanding, which is estimated based on expected time to change in control.
- *Expected Volatility.* The Company used an average historical stock price volatility of a peer group of comparable publicly traded diagnostics companies to be representative of the Company's expected future stock price volatility, as it did not have any trading history for the Company's common stock. The Company has measured historical volatility over a period equivalent to the expected term. The Company believes that historical volatility provides a reasonable estimate of future expected volatility.
- *Risk-Free Interest Rate.* The risk-free interest rate is based on the implied yield currently available on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the warrants.
- *Expected Dividends.* The Company has not paid and does not anticipate paying any dividends in the near future. Accordingly, the Company has estimated the dividend yield to be zero.
- *Fair Value of Common Stock.* As the common stock is not publicly traded, the Company must estimate its fair value. The fair value of common stock was determined on a periodic basis by the Company's board of directors, with the assistance of an independent third-party valuation firm.

The following assumptions were used to determine the fair value of the Put Option liability:

	<u>As of</u> <u>December 31, 2017</u> <u>If sold in year 1</u>	<u>As of</u> <u>December 31, 2017</u> <u>If sold in year 2</u>	<u>As of</u> <u>March 31, 2018</u> <u>If sold in year 1</u>	<u>As of</u> <u>March 31, 2018</u> <u>If sold in year 2</u>
Expected term (in years)	0.83	1.83	0.58	1.58
Expected volatility	41%	40%	53%	51%
Risk-free interest rate	1.68%	1.87%	1.96%	2.20%
Dividend yield	—	—	—	—

#### 14. INCOME TAXES

The Company did not record a provision or benefit for income taxes during the three months ended March 31, 2017 and 2018. The Company is not under tax authority examination. The Company continues to maintain a full valuation allowance against its net deferred tax assets.

On December 22, 2017, the U.S. government enacted the Tax Act. The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering the U.S. corporate income tax rates and implementing a territorial tax system. The corporate tax rate was reduced from 35% to 21% for tax years beginning after December 31, 2017 and certain provisions exist on which to allow accelerated expensing of equipment for a portion of 2017 and for future years. This will largely only affect the value of the Company's deferred tax asset with a corresponding offset to valuation allowance. The Tax Act also limits the amount of net operating losses that can be used to reduce taxable income to 80% for net operating losses generated for periods beginning after December 31, 2017. Existing net operating losses, arising in years on or before December 31, 2017 are not affected by the Tax Act.

Due to the complexity of the provision for accelerated expensing of property and the lack of the current guidance, under the guidance of Staff Accounting Bulletin 118, the Company has recorded the provisional amount of \$2.7 million as the bonus depreciation at the end of 2017, for which the accounting is incomplete but a reasonable estimate can be determined. Provisional amounts or adjustments to provisional amounts identified in the measurement period, as defined, would be included as an adjustment to tax expense or benefit from continuing operations in the period the amounts are determined. The Company has determined a reasonable estimate for the tax reform effects, and reported the estimates as a provisional amount in its financial statements for which the accounting under ASC Topic 740 is completed. The Company will finalize the calculation in 2018.

As of March 31, 2018, the Company had unrecognized tax benefits of \$1.7 million, none of which would currently affect the Company's effective tax rate if recognized due to the Company's net deferred tax assets being fully offset by a valuation allowance. The Company does not anticipate that the amount of unrecognized tax benefits relating to tax positions existing at March 31, 2018 will significantly increase or decrease within the next 12 months. There was no interest expense or penalties related to unrecognized tax benefits recorded through March 31, 2018.

A number of years may elapse before an uncertain tax position is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its reserves for income taxes reflect the most likely outcome. The Company adjusts these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash.



## 15. NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share data):

	Three months ended March 31,	
	2017	2018
Net loss attributable to common stockholders	\$ (8,656)	\$ (4,306)
Weighted average shares used to compute basic and diluted net loss per share attributable to common stockholders	46,308,416	47,417,293
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.19)	\$ (0.09)

The following outstanding shares of potentially dilutive securities were excluded from the computation of diluted net loss per share attributable to common stockholders for the period presented because including them would have been antidilutive:

	Three months ended March 31,	
	2017	2018
Stock options issued and outstanding under stock options plans	4,308,791	2,172,938
Unvested RSUs	8,342,529	15,371,511
Series B redeemable convertible preferred stock warrant	358,253	358,253
Common stock warrant	—	5,000,000
Conversion of redeemable convertible preferred stock	13,299,837	13,299,837
Total	<u>26,309,410</u>	<u>36,202,539</u>

## 16. DEFINED CONTRIBUTION PLAN

The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering substantially all employees over the age of 21 years. Contributions made by the Company are voluntary and are determined annually by the Board subject to the maximum allowable amount under federal tax regulations. The Company has made no contributions to the plan since its inception.

## 17. SUBSEQUENT EVENTS

The Company has reviewed and evaluated subsequent events through May 9, 2018, the date the unaudited condensed consolidated financial statements were available to be issued.

On May 2, 2018, the Company commenced a rescission offer under Rule 701 to holders of 124,703 options, 7,404,506 RSUs and 8,795 shares of the Company's common stock, pursuant to which the Company is offering to repurchase these outstanding options, RSUs and shares from the holder. The rescission offer seeks to address the possibility that certain of the options granted by the Company and the shares issued upon exercise of these options, as well as certain of the RSUs granted by the Company, may have been issued in violation of federal or state securities laws, or both, and may be subject to a right to rescission by the holder. If the rescission offer is accepted by all offerees, the Company may be required to make an aggregate payment to the affected security holders of up to approximately \$359,000, inclusive of interest. The rescission offer is set to expire on June 1, 2018. Management does not believe that this rescission offer will have a material effect on the Company's results of operations, cash flows or financial position.

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Subsequent to March 31, 2018, the Company has granted 3.2 million shares of RSUs, which include both service-and performance-based conditions to vest. The Performance Condition is subject to a liquidity event occurring as described in Note 10 of the condensed consolidated financial statements. Additionally, the Company has granted 0.4 million shares of RSUs, which include only performance based conditions to vest. The Performance Condition is subject to a liquidity event occurring as described in Note 10 of the condensed consolidated financial statements.

**Events Subsequent to Original Issuance of Condensed Consolidated Financial Statements**

On July 31, 2018, Myriad Genetics, Inc. acquired the Company as contemplated in the Merger Agreement entered into on May 25, 2018

**Myriad Genetics, Inc.**  
**Unaudited Pro Forma Condensed Combined Financial Statements**

On July 31, 2018, Myriad Genetics, Inc. (“Myriad”) completed the acquisition of Counsyl, Inc. (“Counsyl”), in accordance with the terms of the previously announced Agreement and Plan of Merger (the “Merger Agreement”), dated May 25, 2018, by and among Myriad, Cinnamon Merger Sub, Inc., a wholly owned subsidiary of Myriad (“Merger Subsidiary”), Counsyl and Fortis Advisors LLC, as the representative of the security holders of Counsyl. Pursuant to the terms of the Merger Agreement, Merger Subsidiary was merged with and into Counsyl, with Counsyl continuing as the surviving corporation and wholly owned subsidiary of Myriad (the “Merger”). Under the terms of the Merger Agreement, the preliminary consideration of \$407.0 million (the Purchase Price), consisted of \$279.6 million in cash, financed in part through additional debt, and 2,994,251 shares of common stock issued, valued at \$127.4 million.

In connection with the Merger, the Company entered into Amendment No. 1 (the “Amendment”), by and among Myriad, as borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (the “Agent”), amending the Credit Agreement, dated as of December 23, 2016 (the “Credit Agreement”). The Amendment effects an “amend and extend” transaction with respect to the Company’s existing senior secured revolving credit facility (the “Facility”) by which the maturity date thereof was extended to July 31, 2023 and the maximum aggregate principal commitment was increased from \$300.0 million to \$350.0 million. Other than the extended maturity date and increase in commitment amount, the agreement did not impact or amend the Facility’s previously disclosed terms, including its covenants, events of default, or terms of payment. The proceeds of the Facility were used to (i) finance the acquisition of Counsyl, (ii) pay fees, commissions, transactions costs and expenses incurred in connection with the foregoing, and (iii) for working capital and other general corporate purposes.

The unaudited pro forma condensed combined balance sheet as of March 31, 2018 and the unaudited pro forma condensed combined statements of operations for the year ended June 30, 2017 and the nine months ended March 31, 2018 are based on the historical financial statements of the Company and Counsyl after giving effect to the Company’s acquisition of Counsyl and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements.

The Company’s fiscal year end is June 30 and Counsyl’s fiscal year end is December 31. The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2017 combine the Company’s historical results for the fiscal year ended June 30, 2017 with Counsyl’s historical results for the calendar six months ended December 31, 2016 plus its results for the calendar six months ended June 30, 2017. The unaudited pro forma combined statement of income for the nine months ended March 31, 2018 combine the Company’s historical results for the nine months ended March 31, 2018 with Counsyl’s historical results for the calendar six months ended December 31, 2017 plus its results for the calendar three months ended March 31, 2018.

The unaudited pro forma condensed combined balance sheet as of March 31, 2018 is presented as if the acquisition of Counsyl had occurred on that date. The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2017 is presented as if the acquisition of Counsyl had occurred on July 1, 2016, and the unaudited pro forma condensed combined statement of operations for the nine months ended March 31, 2018 is presented as if the acquisition of Counsyl had occurred on July 1, 2017.

The preliminary allocation of the consideration transferred used in the unaudited pro forma condensed combined financial statements is based upon preliminary estimates. The preliminary allocation of the consideration transferred is subject to potential adjustments based on management’s estimates of fair values of tangible and intangible assets acquired, liabilities assumed, as well as other tax-related matters. Upon completion of detailed valuation studies, the Company may make additional adjustments to the fair values, and these valuations could change significantly from those used to determine certain adjustments in the pro forma condensed combined financial statements. The Company expects the allocation of consideration transferred to be final within the measurement period (up to one year from the acquisition date).

The unaudited pro forma condensed combined financial statements, including the notes thereto, do not reflect any potential cost savings or other synergies that could result from the Merger. The Merger will be accounted for using the purchase method of accounting. The unaudited pro forma condensed combined financial statements are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations for future periods or the results that would have been achieved if the Merger had been consummated on the dates indicated. The pro forma adjustments are based upon information and assumptions available at the time of filing this Current Report on Form 8-K/A.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the Company’s historical consolidated financial statements and notes thereto of the Company and other financial information pertaining to the Company contained in its Annual Report on Form 10-K for the fiscal year ended June 30, 2017, which was filed with the Securities and Exchange Commissions (“SEC”) on August 9, 2017, the Company’s historical consolidated financial statements and notes thereto contained in the Company’s Interim Report on Form 10-Q for the nine months ended March 31, 2018, which was filed with the SEC on May 9, 2018, and the historical financial statements of Counsyl as of December 31, 2016 and 2017, and for the years then ended included as Exhibit 99.1 in this Current Report on Form 8-K/A.

**Myriad Genetics, Inc.**  
**Unaudited Pro Forma Condensed Combined Balance Sheet**  
**As of March 31, 2018**  
(In millions, except per share amounts)

	Myriad	Counsyl		Pro Forma Adjustments	Pro Forma Combined
<b>Assets</b>					
Cash and cash equivalents	\$ 97.4	\$ 23.7	A	\$ 8.3	\$ 129.4
Marketable investment securities	59.9	—			59.9
Prepaid expenses and other current assets	10.1	4.6			14.7
Inventory	33.4	3.8			37.2
Trade accounts receivable, less allowance of doubtful accounts	123.7	21.7	O	0.2	145.6
Prepaid taxes	3.7	—			3.7
Other receivables	3.3	—			3.3
<b>Total current assets</b>	<u>331.5</u>	<u>53.8</u>		<u>8.5</u>	<u>393.8</u>
Property and equipment, net	48.2	13.1	B	(13.1)	67.1
			C	18.9	
Long term marketable investment securities	51.3	—		—	51.3
Other assets	—	3.1	D	(2.5)	0.6
Intangibles, net	467.3	—	E	292.9	760.2
Goodwill	320.2	—	F	88.6	408.8
<b>Total assets</b>	<u>\$1,218.5</u>	<u>\$ 70.0</u>		<u>\$ 393.3</u>	<u>\$ 1,681.8</u>
<b>Liabilities and Stockholders' Equity</b>					
Accounts payable	20.2	3.2	G	15.3	38.7
Accrued liabilities	64.1	15.2	H	0.7	80.0
Short term contingent consideration	7.4	—			7.4
Deferred revenue	2.6	—			2.6
<b>Total current liabilities</b>	<u>94.3</u>	<u>18.4</u>		<u>16.0</u>	<u>128.7</u>
Unrecognized tax benefits	27.9	—			27.9
Other long term liabilities	6.8	4.4			11.2
Contingent consideration	9.6	—			9.6
Long-term debt	69.3	67.8	I	(67.8)	357.2
			J	287.9	
Put option liability	—	2.1	I	(2.1)	—
Commons stock warrant liability	—	10.7	I	(10.7)	—
Redeemable convertible preferred stock warrant liability	—	1.7	I	(1.7)	—
Long-term deferred taxes	62.2	—	K	25.0	87.2
<b>Total liabilities</b>	<u>\$ 270.1</u>	<u>\$ 105.1</u>		<u>\$ 246.6</u>	<u>\$ 621.8</u>
Redeemable convertible preferred stock	—	90.5	L	(90.5)	—
<b>Stockholder's equity</b>					
Common Stock	0.7	—	M	—	0.7
Additional paid in capital	889.6	28.6	L	(28.6)	1,017.0
			M	127.4	
Accumulated other comprehensive income	1.8	—			1.8
Retained earnings (accumulated deficit)	56.2	(154.2)	L	154.2	40.4
			N	(16.0)	
			O	0.2	
<b>Total stockholder's equity</b>	<u>\$ 948.3</u>	<u>\$(125.6)</u>		<u>\$ 237.2</u>	<u>\$ 1,059.9</u>
Non-controlling interest	0.1	—			0.1
<b>Total stockholders' equity (deficit)</b>	<u>948.4</u>	<u>(125.6)</u>		<u>237.2</u>	<u>1,060.0</u>
<b>Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)</b>	<u>\$1,218.5</u>	<u>\$ 70.0</u>		<u>\$ 393.3</u>	<u>\$ 1,681.8</u>

See the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

**Myriad Genetics, Inc.**  
**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**For the nine months ended March 31, 2018**  
(In millions, except per share amounts)

	Myriad	Counsyl		Pro Forma Adjustments	Pro Forma Combined
<b>Revenues</b>					
Molecular diagnostic testing	\$537.6	\$102.6	O	\$ 0.2	\$ 640.4
Pharmaceutical and clinical services	40.1	—			40.1
<b>Total Revenues</b>	<b>577.7</b>	<b>102.6</b>		<b>0.2</b>	<b>680.5</b>
<b>Cost and Expenses:</b>					
Cost of molecular diagnostic testing	110.7	44.8	B	(1.6)	155.1
			C	1.2	
Cost of pharmaceutical and clinical services	20.7	—			20.7
Research and development expense	53.1	17.4	B	(1.5)	70.2
			C	1.2	
Change in the fair value of contingent consideration	(61.3)	—			(61.3)
Selling, general, and administrative expenses	345.5	57.8	B	(0.4)	422.0
			C	0.7	
			E	18.4	
<b>Total costs and expenses</b>	<b>468.7</b>	<b>120.0</b>		<b>18.0</b>	<b>606.7</b>
<b>Operating Income</b>	<b>109.0</b>	<b>(17.4)</b>		<b>(17.8)</b>	<b>73.8</b>
<b>Other income (expense)</b>					
Interest income	1.2	—			1.2
Interest expense	(2.2)	(6.8)	I	6.8	(11.4)
			J	(9.2)	
Other	(1.3)	(1.1)	I	(0.2)	(2.6)
<b>Total other income (expense)</b>	<b>(2.3)</b>	<b>(7.9)</b>		<b>(2.6)</b>	<b>(12.8)</b>
<b>Income before income tax</b>	<b>106.7</b>	<b>(25.3)</b>		<b>(20.4)</b>	<b>61.0</b>
Income tax provision	(17.7)	—	Q	(8.3)	(26.0)
<b>Net income (loss)</b>	<b>124.4</b>	<b>(25.3)</b>		<b>(12.1)</b>	<b>87.0</b>
Net loss attributable to non-controlling interest	(0.2)	—			(0.2)
<b>Net income attributable to Myriad Genetics, Inc.</b>	<b>\$124.6</b>	<b>(25.3)</b>		<b>\$ (12.1)</b>	<b>\$ 87.2</b>
<b>Earnings (loss) per share to reflect adjustments:</b>					
Basic	\$ 1.80			\$ (0.59)	\$ 1.21
Diluted	\$ 1.74			\$ (0.57)	\$ 1.17
<b>Weighted average number of shares outstanding:</b>					
Basic	69.2		P	3.0	72.2
Diluted	71.7		P	3.0	74.7

See the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

**Myriad Genetics, Inc.**  
**Unaudited Pro Forma Condensed Combined Statement of Operations**  
**For the fiscal year ended June 30, 2017**  
(In millions, except per share amounts)

	Myriad	Counsyl		Pro Forma Adjustments	Pro Forma Combined
<b>Revenues</b>					
Molecular diagnostic testing	\$722.1	\$111.6	O	\$ 1.3	\$ 835.0
Pharmaceutical and clinical services	49.3	—			49.3
<b>Total Revenues</b>	<b>771.4</b>	<b>111.6</b>		<b>1.3</b>	<b>884.3</b>
<b>Cost and Expenses:</b>					
Cost of molecular diagnostic testing	145.2	46.6	B	(2.1)	191.4
			C	1.7	
Cost of pharmaceutical and clinical services	26.0	—			26.0
Research and development expense	74.4	22.7	B	(1.8)	96.7
			C	1.4	
Change in the fair value of contingent consideration	(0.8)	—			(0.8)
Selling, general, and administrative expenses	476.4	71.8	B	(0.7)	573.0
			C	1.0	
			E	24.5	
<b>Total costs and expenses</b>	<b>721.2</b>	<b>141.1</b>		<b>24.0</b>	<b>886.3</b>
Operating Income	50.2	(29.5)		(22.7)	(2.0)
<b>Other income (expense)</b>					
Interest income	1.2	—			1.2
Interest expense	(6.0)	(4.1)	I	4.1	(18.3)
			J	(12.3)	
Other	(2.5)	—	I	—	(2.5)
<b>Total other income (expense)</b>	<b>(7.3)</b>	<b>(4.1)</b>		<b>(8.2)</b>	<b>(19.6)</b>
<b>Income before income tax</b>	<b>42.9</b>	<b>(33.6)</b>		<b>(30.9)</b>	<b>(21.6)</b>
Income tax provision	21.3	—	Q	(15.0)	6.3
<b>Net income (loss)</b>	<b>21.6</b>	<b>(33.6)</b>		<b>(15.9)</b>	<b>(27.9)</b>
Net loss attributable to non-controlling interest	(0.2)	—			(0.2)
<b>Net income attributable to Myriad Genetics, Inc.</b>	<b>\$ 21.8</b>	<b>\$ (33.6)</b>		<b>\$ (15.9)</b>	<b>\$ (27.7)</b>
<b>Earnings (loss) per share to reflect adjustments:</b>					
Basic	\$ 0.32			\$ (0.71)	\$ (0.39)
Diluted	\$ 0.32			\$ (0.71)	\$ (0.39)
<b>Weighted average number of shares outstanding:</b>					
Basic	68.3		P	3.0	71.3
Diluted	68.8		P	3.0	71.8

See the accompanying Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

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**Myriad Genetics, Inc.**  
**Notes to Unaudited Pro Forma Condensed Combined Financial Statements**

**1. Description of Transaction and Basis of Presentation**

***Description of Transaction***

On July 31, 2018, Myriad Genetics, Inc. (“Myriad”) completed the acquisition of Counsyl, Inc. (“Counsyl”), in accordance with the terms of the previously announced Agreement and Plan of Merger (the “Merger Agreement”), dated May 25, 2018, by and among Myriad, Cinnamon Merger Sub, Inc., a wholly owned subsidiary of Myriad (“Merger Subsidiary”), Counsyl and Fortis Advisors LLC, as the representative of the security holders of Counsyl. Pursuant to the terms of the Merger Agreement, Merger Subsidiary was merged with and into Counsyl, with Counsyl continuing as the surviving corporation and wholly owned subsidiary of Myriad (the “Merger”). Under the terms of the Merger Agreement, the preliminary consideration of \$407.0 million (the Purchase Price), consisted of \$279.6 million in cash, financed in part through additional debt, and 2,994,251 shares of common stock issued, valued at \$127.4 million.

In connection with the Merger, the Company entered into Amendment No. 1 (the “Amendment”), by and among Myriad, as borrower, the lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (the “Agent”), amending the Credit Agreement, dated as of December 23, 2016 (the “Credit Agreement”). The Amendment effects an “amend and extend” transaction with respect to the Company’s existing senior secured revolving credit facility (the “Facility”) by which the maturity date thereof was extended to July 31, 2023 and the maximum aggregate principal commitment was increased from \$300.0 million to \$350.0 million. Other than the extended maturity date and increase in commitment amount, the agreement did not impact or amend the Facility’s previously disclosed terms, including its covenants, events of default, or terms of payment. The proceeds of the Facility were used to (i) finance the acquisition of Counsyl, (ii) pay fees, commissions, transactions costs and expenses incurred in connection with the foregoing, and (iii) for working capital and other general corporate purposes.

***Basis of Presentation***

The unaudited pro forma condensed combined financial statements have been prepared based on Myriad’s and Counsyl’s historical financial information, giving effect to the Merger and related adjustments described in these notes. Myriad prepares its financial statements in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Certain note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by the Securities and Exchange Commission rules and regulations.

The Company accounts for business combinations pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 805, *Business Combinations*. In accordance with ASC 805, the Company recognizes separately from goodwill, the identifiable assets acquired, the liabilities assumed, and noncontrolling interests in an acquiree, generally at the acquisition date fair value as defined by ASC 820, *Fair Value Measurements and Disclosures*. Goodwill as of the acquisition date is measured as the excess of consideration fair value transferred and the net of the identifiable assets acquired and the liabilities assumed at the acquisition date.

The Company has made significant assumptions and estimates in determining the consideration transferred and the preliminary allocation of the consideration transferred in the unaudited pro forma condensed combined financial statements. These preliminary estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date) as the Company finalizes the valuation of certain tangible and intangible assets acquired and liabilities assumed in connection with the acquisition related to the valuations of acquired assets (tangible and intangible), liabilities, as well as other tax-related matters. These changes could result in material variances between the Company’s future financial results and the amounts presented in these unaudited pro forma condensed combined financial statements, including variances in fair values recorded, as well as expenses and cash flows associated with these items.

The unaudited pro forma condensed combined balance sheet as of March 31, 2018 and the unaudited pro forma condensed combined statements of operations for the year ended June 30, 2017 and the nine months ended, March 31, 2018 are based on the historical financial statements of the Company and Counsyl after giving effect to the Company’s acquisition of Counsyl and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements.

The historical financial information is adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma events and are based on (i) the historical consolidated results of operations and financial condition of the Company; (ii) the historical consolidated results of operations and financial condition of Counsyl; and (iii) pro forma events directly attributable to the Merger and with respect to the unaudited condensed combined statements of operations, are expected to have a continuing impact on the combined results, as further described below.

Certain reclassifications have been made to the historical presentation of Counsyl to conform to the presentation used in the unaudited pro forma condensed combined financial information. Specifically, Counsyl has historically presented sales and marketing expenses separate from general and administrative expenses. Within the unaudited pro forma condensed combined statements of income as selling, general, and administrative expenses to conform to the Company's presentation. Additionally, Counsyl historically presented other income (expense) separate from loss on extinguishment of debt. Within the unaudited pro forma condensed combined statements of income, these are now presented as one line item as other income (expenses) consistent with the Company's historical presentation. These reclassifications have no net impact on the historical operating income, income from continuing operations, total assets, liabilities, or shareholders' equity reported by Myriad and Counsyl.

## 2. Purchase Price

In connection with the Merger, the Company agreed to pay \$279.6 million in cash and agreed to issue 2,994,251 shares of Common Stock as merger consideration. The shares were issued and valued as of July 31, 2018 at a per share market closing price of \$42.53, for a total purchase price of \$407.0 million.

<b>The total estimate purchase price paid is presented below (in millions):</b>	
Cash	\$279.6
Common Stock	<u>127.4</u>
<b>Total</b>	<b><u>\$407.0</u></b>

## 3. Pro Forma Adjustments (in millions)

The unaudited pro forma condensed combined balance sheet and statements of income give effect to the following pro forma adjustments:

- A. Reflects the amount of cash consideration paid for the Merger as well as the net cash received related to the Facility, as follows:

<b>Cash transactions</b>	
Cash consideration	\$(279.6)
Net cash received from Facility (net of issuance costs)	<u>287.9</u>
<b>Total</b>	<b><u>\$ 8.3</u></b>

- B. Reflects the elimination of Counsyl's historical property and equipment, net carrying value and related depreciation expense. The income statement adjustment reflects the historical depreciation expense and is allocated between cost of molecular diagnostic testing, research and development expense, and selling, general, and administrative expenses.

	<b>Carrying Value</b>	<b>Depreciation Expense for the nine months ended March 31, 2018</b>	<b>Depreciation Expense for the year ended June 30, 2017</b>
Property and Equipment, net	<u>\$ (13.1)</u>	<u>\$ (3.5)</u>	<u>(4.6)</u>

- C. Reflects the fair value adjustment for the property and equipment acquired. The replacement cost approach was used in determining the fair value of property and equipment. The income statement adjustment reflects the depreciation expense based on the fair value of net property and equipment and is allocated between cost of molecular diagnostic testing, research and development expense, and selling, general, and administrative expenses.

	<b>Fair value</b>	<b>Myriad's Useful Life</b>	<b>Depreciation Expense for the nine months ended March 31, 2018</b>	<b>Depreciation Expense for the year ended June 30, 2017</b>
Property and Equipment, net				
Leasehold improvements	\$ 6.7	Lease term	\$ 0.6	0.8
Equipment	<u>12.2</u>	5-7	<u>2.5</u>	<u>3.3</u>
<b>Total</b>	<b><u>\$ 18.9</u></b>		<b><u>\$ 3.1</u></b>	<b><u>4.1</u></b>

- D. Reflects the elimination of Counsyl's \$2.5 million deferred offering costs.
- E. Reflects the fair value adjustments for intangible assets acquired in the Merger and the related pro forma amortization adjustments. The fair value of developed technology is determined primarily using the discounted cash flow approach, which requires a forecast of all of the expected future cash flows. The net book value of internally developed software represents the fair value of the asset.



The income statement adjustment reflects the amortization expense based on the fair value of intangibles and is all included in selling, general, and administrative expenses. The following table summarizes the estimated fair values of the identifiable intangible assets acquired, their useful lives, and the amortization expense:

Intangibles	Fair Value	Remaining Useful Life (Years)	Amortization Expense for the nine months ended March 31, 2018	Amortization Expense for the year ended June 30, 2017
Developed Technology – Prelude	\$ 71.0	12	\$ 4.5	5.9
Developed Technology – Foresight	159.0	12	9.9	13.2
Developed Technology – Reliant	62.0	12	3.9	5.2
Internally Developed Software	0.9	5	0.1	0.2
<b>Total indicated Fair Value</b>	<b><u>\$292.9</u></b>		<b><u>\$ 18.4</u></b>	<b><u>24.5</u></b>

F. Reflects the estimated amount of goodwill to be recorded:

Preliminary Purchase Price	\$ 407.0
Less: Estimated fair value of the assets acquired	
Current assets	(53.8)
Property and equipment	(18.9)
Other assets	(0.6)
Intangible assets	(292.9)
Plus: Estimated fair value of the liabilities assumed	
Current liabilities	18.4
Long-term liabilities	4.4
Deferred tax liability, net	25.0
<b>Goodwill</b>	<b><u>\$ 88.6</u></b>

G. Reflects adjustment for transaction costs that are payable by Myriad and Counsyl as of the close of the Merger.

H. Reflects adjustment for the revision to Counsyl's corporate bonus plan in contemplation of the acquisition.

I. Reflects adjustment to eliminate Counsyl historical debt and debt like items not assumed in connection with the Merger, including the related interest expense and mark-to-market adjustments.

Historical debt and debt like items	Balance
Long-term debt	\$ (67.8)
Put option liability	(2.1)
Common stock warrant liability	(10.7)
Redeemable convertible preferred stock warrant liability	(1.7)
<b>Total</b>	<b><u>\$ (82.3)</u></b>

Income Statement impacts	For the nine months ended March 31, 2018	For the year ended June 30, 2017
Interest Expense	\$ (6.8)	\$ (4.1)
Mark-to-Market changes	(0.2)	—

- J. Reflects adjustments to recognize the increased borrowings and the associated interest expense and amortization of debt issuance cost related to the amended Facility in connection with the acquisition. The effective interest rate assumed in preparing these pro forma financial statements is 4.08%.

	Balance	Interest Expense for the nine months ended March 31, 2018	Interest Expense for the year ended June 30, 2017
Facility	\$287.9	\$ 9.2	\$ 12.3

- K. Reflects adjustment to record deferred tax assets and liabilities resulting from the Merger. This adjustment includes deferred tax assets of \$40.8 million resulting from Counsyl's net operating losses and \$6.9 million resulting from unused research and development tax credits. Deferred tax liabilities total \$72.7 million as a result of the acquired intangible assets and increase in fair value of the fixed assets recorded in connection with the Merger. The net effect reflects a \$25.0 million deferred tax liability.
- L. Reflects the adjustment for the elimination of Counsyl's historical equity balances.
- M. Reflects the issuance of 2,994,251 shares of Common Stock with a par value of \$0.01 and a closing price of \$42.53 as part of consideration transferred.

	Par Value	APIC
Common Stock	\$ —	\$127.4

- N. Reflects transaction expenses related to the Merger not recognized in the historical financial statements and adjustment to Counsyl's corporate bonus plan as follows.

	Balance
Transaction expenses	\$ (15.3)
Additional accrual for equity portion of Counsyl bonus accrual	(0.7)
<b>Total</b>	<b><u>\$ (16.0)</u></b>

- O. Reflects the estimated adjustment to conform Counsyl's historical revenue recognition policies under ASC 606, *Revenue from Customer Contracts* to Myriad's historical revenue policies under ASC 605, *Revenue Recognition*.
- P. Reflects the change in basic shares outstanding for the shares of Common Stock issued as part of the transaction.
- Q. Reflects the estimated tax benefit that would have been recognized as a result of the assumed reduction of taxable income, using a federal tax rate of 35% plus a blended state rate of 2% for the year ended June 30, 2017 and a federal tax rate of 28% plus a blended state rate of 2% for the nine months ended March 31, 2018.