FLUIDIGM CORP
Form 10-Q
November 06, 2014
Table of Contents

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-34180

FLUIDIGM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	77-0513190
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7000 Shoreline Court, Suite 100 South San Francisco, California 94080 (Address of principal executive offices) (Zip Code)	
(650) 266-6000 (Registrant's telephone number, including area code)	

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	ý
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of October 31, 2014, there were 28,253,970 shares of the Registrant's common stock outstanding.

Table of Contents

FLUIDIGM CORPORATION
TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
FLUIDIGM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	September 30, 2014 (Unaudited)	December 31, 2013 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$30,939	$35,261
Short-term investments	64,324	49,083
Accounts receivable (net of allowances of $35 at September 30, 2014 and $36 at December 31, 2013)	16,919	10,552
Inventories	16,960	8,148
Prepaid expenses and other current assets	3,678	1,540
Total current assets	132,820	104,584
Long-term investments	51,962	1,942
Property and equipment, net	12,668	6,818
Developed technology, net	105,000	—
Goodwill	104,245	—
Other non-current assets	3,698	3,571
Total assets	$410,393	$116,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$7,276	$4,353
Accrued compensation and related benefits	6,034	5,485
Other accrued liabilities	7,366	5,392
Deferred revenue, current portion	6,630	2,721
Total current liabilities	27,306	17,951
Convertible notes, net	195,399	—
Deferred tax liability	27,109	—
Deferred revenue, net of current portion	4,407	1,899
Other non-current liabilities	1,617	651
Total liabilities	255,838	20,501
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized, no shares issued and outstanding at September 30, 2014 and December 31, 2013	—	—
Common stock, $0.001 par value, 200,000 shares authorized at September 30, 2014 and December 31, 2013; 28,236 and 25,811 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	28	26
Additional paid-in capital	454,562	354,465
Accumulated other comprehensive loss	(802)	(730)
Accumulated deficit	(299,233)	(257,347)
Total stockholders' equity	154,555	96,414
Total liabilities and stockholders' equity	$410,393	$116,915

See accompanying notes.

3

Table of Contents

FLUIDIGM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Product revenue	$29,564	$18,045	$82,492	$49,566
License revenue	71	78	257	242
Grant revenue	—	164	217	494
Total revenue	29,635	18,287	82,966	50,302
Costs and expenses:				
Cost of product revenue	11,421	5,138	30,080	14,273
Research and development	12,687	5,004	31,707	14,198
Selling, general and administrative	18,574	12,097	52,486	34,840
Litigation settlement	—	1,000	—	1,000
Acquisition-related expenses	—	—	10,696	—
Total costs and expenses	42,682	23,239	124,969	64,311
Loss from operations	(13,047)	(4,952)	(42,003)	(14,009)
Interest expense	(1,453)	(1)	(3,894)	(13)
Gain from sale of investment in Verinata	332	—	332	1,777
Other (expense) income, net	(338)	709	(308)	457
Loss before income taxes	(14,506)	(4,244)	(45,873)	(11,788)
Benefit from (provision for) income taxes	716	(42)	3,987	(95)
Net loss	$(13,790)	$(4,286)	$(41,886)	$(11,883)
Net loss per share, basic and diluted	$(0.49)	$(0.17)	$(1.52)	$(0.47)
Shares used in computing net loss per share, basic and diluted	28,085	25,534	27,613	25,407

See accompanying notes.

Table of Contents

FLUIDIGM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net loss	$(13,790)	$(4,286)	$(41,886)	$(11,883)
Other comprehensive (loss) income, net of tax				
Unrealized net income (loss) on available-for-sale securities	35	37	(5)	23
Foreign currency translation adjustment	(137)	45	(67)	33
Other comprehensive (loss) income, net of tax	(102)	82	(72)	56
Total comprehensive loss	$(13,892)	$(4,204)	$(41,958)	$(11,827)

See accompanying notes.

Table of Contents

FLUIDIGM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net loss	$(41,886)	$(11,883)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,922	1,850
Stock-based compensation expense	15,280	4,681
Acquisition-related share-based awards acceleration expense	2,648	—
Amortization of developed technology	7,000	—
Non-cash charges for sale of inventory revalued at the date of acquisition	798	—
Gain from sale of investment in Verinata	(332)	(1,777)
Other non-cash items	83	29
Changes in assets and liabilities:		
Accounts receivable, net	1,650	572
Inventories	(6,450)	(1,344)
Prepaid expenses and other current assets	(564)	(1,404)
Other non-current assets	(662)	(7)
Accounts payable	1,453	1,150
Deferred revenue	2,944	1,652
Other current liabilities	146	1,526
Other non-current liabilities	(4,128)	126
Net cash used in operating activities	(19,098)	(4,829)
Investing activities		
Acquisition, net of cash acquired	(113,190)	—
Purchases of investments	(106,672)	(56,831)
Proceeds from sales and maturities of investments	41,412	19,140
Proceeds from sale of investment in Verinata	332	3,117
Purchase of intangible assets	—	(1,043)
Purchases of property and equipment	(5,919)	(1,565)
Net cash used in investing activities	(184,037)	(37,182)
Financing activities		
Proceeds from issuance of convertible notes, net	195,212	—
Proceeds from exercise of stock options	4,084	3,501
Net cash provided by financing activities	199,296	3,501
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(483)	(40)
Net decrease in cash and cash equivalents	(4,322)	(38,550)
Cash and cash equivalents at beginning of period	35,261	58,649
Cash and cash equivalents at end of period	$30,939	$20,099
Supplemental cash flow information:		
Issuance of common stock and options related to acquisition	$78,196	$—

See accompanying notes.

Table of Contents

FLUIDIGM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business

Fluidigm Corporation (we, our, or us) was incorporated in the State of California in May 1999 to commercialize microfluidic technology initially developed at the California Institute of Technology. In July 2007, we were reincorporated in Delaware. Our headquarters are located in South San Francisco, California. We develop, manufacture, and market life science analytical and preparatory systems for growth markets such as single-cell biology and production genomics. We sell to leading academic institutions, clinical laboratories, and pharmaceutical, biotechnology, and agricultural biotechnology (Ag-Bio) companies worldwide. Our systems are based on proprietary microfluidics and multi-parameter mass cytometry technology, and are designed to significantly simplify experimental workflow, increase throughput, and reduce costs, while providing excellent data quality.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2013 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements. These financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial information. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other interim period or for any other future year.

The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. On an ongoing basis, we evaluate our estimates, including critical accounting policies or estimates related to revenue recognition, income tax provisions, stock-based compensation, inventory valuation, allowances for doubtful accounts, and useful lives of long-lived assets. We base our estimates on historical experience and on various relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2013 included in our Annual Report on Form 10-K filed with the SEC.

Reclassifications

Certain items previously reported in the condensed consolidated statement of cash flows have been reclassified to conform to the current period presentation. Such reclassifications do not impact previously reported net cash used in operating activities, net cash used in investing activities, net cash provided by financing activities, or change in cash and cash equivalents.

Net Loss per Share

Our basic and diluted net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding for the period. Restricted stock units and options to purchase common stock are considered to be potentially dilutive common shares but have been excluded from the calculation of diluted net loss per share as their effect is anti-dilutive for all periods presented.

7

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

The following potentially dilutive common shares were excluded from the computation of diluted net loss per share for the interim periods presented because including them would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Stock options, restricted stock units and restricted stock awards	3,900	3,631	3,900	3,631
Convertible notes	3,598	—	3,598	—
Total	7,498	3,631	7,498	3,631

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss for the nine months ended September 30, 2014 are summarized as follows (in thousands):

	Net Unrealized Gain (Loss) on Marketable Securities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at December 31, 2013	$12	$(742)	$(730)
Other comprehensive income (loss)	1	(28)	(27)
Balance at March 31, 2014	$13	$(770)	$(757)
Other comprehensive (loss) income	(33)	98	65
Amounts reclassified to interest income	(8)	—	(8)
Balance at June 30, 2014	$(28)	$(672)	$(700)
Other comprehensive income (loss)	35	(137)	(102)
Balance at September 30, 2014	$7	$(809)	$(802)

Investment, at cost

In February 2013, Illumina, Inc. acquired Verinata Health, Inc. (Verinata) for $350 million in cash and up to an additional $100 million in milestone payments through 2015. In March 2013, we received cash proceeds of $3.1 million in exchange for our ownership interest in Verinata resulting in a gain of $1.8 million. If the milestone payments become payable in the future, we could receive up to $3.2 million in additional proceeds.

During the third quarter of 2014, we received cash proceeds of $0.3 million from the escrow account related to our investment in Verinata. We recorded the proceeds as "Gain from sale of investment in Verinata" in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2014.

Business Combinations

Assets acquired and liabilities assumed as part of a business acquisition are generally recorded at their fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. Accounting for business acquisitions requires management to make judgments as to whether a purchase transaction is a multiple element contract, meaning that it includes other transaction components such as a settlement of a preexisting relationship. This judgment and determination affects the amount of consideration paid that is allocable to assets and liabilities acquired in the business purchase transaction.

Long-lived Assets, including Goodwill

Goodwill and intangible assets with indefinite lives are not subject to amortization, but are tested for impairment on an annual basis during the fourth quarter or whenever events or changes in circumstances indicate the carrying amount of these assets may not be recoverable. We first conduct an assessment of qualitative factors to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. If we determine that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, we then conduct a two-step test for impairment of goodwill. In

the first step, we compare the fair value of our reporting unit to its carrying values. If the fair values of our reporting unit exceed the carrying value of the net assets, goodwill is not considered impaired and no further analysis is required. If the carrying values of the net assets exceed the fair values of the reporting unit, then the second step of the impairment test must be performed in order to determine the implied fair value of the goodwill. If the carrying value of the goodwill exceeds the implied fair value, then an impairment loss equal to the difference would be recorded. We evaluate our finite lived intangible assets for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If any indicator of impairment exists, we assess the recoverability of the affected intangible assets by determining whether the carrying value of the asset can be recovered through undiscounted future operating cash flows. If impairment is indicated, we estimate the asset's fair value using future discounted cash flows associated with the use of the asset, and adjust the carrying value of the asset accordingly.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02 Comprehensive Income Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (Topic 220). This guidance is intended to provide disclosure on items reclassified out of accumulated other comprehensive income (loss) either in the notes or parenthetically on the face of the income statement. There was no impact on our financial statements from adoption, other than the additional disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. It will be effective for our first quarter of 2017 and early adoption is not permitted. We are currently evaluating the impact of adoption of this new accounting pronouncement on our financial statements.

In August 2014, the FASB issued Accounting Standard Update No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires an entity to evaluate whether conditions or events, in the aggregate, raise substantial doubt about the entity's ability to continue as a going concern for one year from the date the financial statements are issued or are available to be issued. The guidance will become effective January 1, 2017. At this time, we do not expect the adoption of ASU 2014-15 to have an impact on our consolidated financial position, results of operations, or cash flows.

3. Convertible Notes

On February 4, 2014, we closed an underwritten public offering of $201.3 million aggregate principal amount of our 2.75% Senior Convertible Notes due 2034 (Notes) pursuant to an underwriting agreement, dated January 29, 2014. The Notes will accrue interest at a rate of 2.75% per year, payable semi-annually in arrears on February 1 and August 1 of each year, commencing August 1, 2014. The Notes will mature on February 1, 2034, unless earlier converted, redeemed, or repurchased in accordance with the terms of the Notes. The initial conversion rate of the Notes is 17.8750 shares of our common stock, par value $0.001 per share, per $1,000 principal amount of Notes (which is equivalent to an initial conversion price of approximately $55.94 per share). The conversion rate will be subject to adjustment upon the occurrence of certain specified events. Holders may surrender their Notes for conversion at any time prior to the stated maturity date. On or after February 6, 2018 and prior to February 6, 2021, we may redeem any or all of the Notes in cash if the closing price of our common stock exceeds 130% of the conversion price for a specified number of days, and on or after February 6, 2021, we may redeem any or all of the Notes in cash without any such condition. The redemption price of the Notes will equal 100% of the principal amount of the Notes plus accrued and unpaid interest. Holders may require us to repurchase all or a portion of their Notes on each of February 6, 2021, February 6, 2024, and February 6, 2029 at a repurchase price in cash equal to 100% of the principal amount

of the Notes plus accrued and unpaid interest. If we undergo a fundamental change, as defined in the terms of the Notes, holders may require us to repurchase the Notes in whole or in part for cash at a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest.

We received $195.2 million, net of underwriting discounts, from the issuance of the Notes and incurred approximately $1.1 million in offering-related expenses. We used $126.0 million of the net proceeds to fund the cash portion of the consideration payable by us in connection with our acquisition of DVS Sciences, Inc. (now Fluidigm Sciences Inc.) (See Note 4). Interest expense related to the Notes was approximately $1.5 million and $3.9 million for the three and nine months ended September 30, 2014, respectively. Approximately $2.7 million of accrued interest under the Notes became due and was paid in the third quarter of 2014.

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

4. Acquisition

On February 13, 2014 (Acquisition Date), we acquired DVS Sciences, Inc. (DVS) primarily to broaden our addressable single-cell biology market opportunity and complement our existing product offerings. DVS develops, manufactures, markets, and sells multi-parameter single-cell protein analysis systems and related reagents and data analysis tools. DVS's principal market is the life sciences research market consisting of drug development companies, government research centers, and universities worldwide.

The contractual price for the acquisition was $207.5 million, subject to certain adjustments as specified in the merger agreement. The aggregate purchase price was determined to be $199.9 million, as detailed in the table below (in thousands):

	Estimated Fair Value
Cash	$126,048
Issued 1,759,007 shares of Fluidigm common stock	76,805
Acquisition consideration paid at Acquisition Date	202,853
Accelerated stock compensation (1)	(6,690)
Estimated fair value of vested Fluidigm equivalent stock options (2)	4,039
Working capital adjustment	(269)
Aggregate purchase price	$199,933

(1) As a part of the acquisition, we accelerated vesting of certain DVS stock options and shares of restricted stock, and incurred a $6.7 million expense, based upon the per share consideration paid to holders of shares of DVS common stock as of February 13, 2014. This expense is accounted for as a separate transaction and reflected in the acquisition-related expenses line of the condensed consolidated statements of operations.

(2) In conjunction with the acquisition, we assumed all outstanding DVS stock options and unvested shares of restricted stock and converted, as of the Acquisition Date, the unvested stock options outstanding under the DVS stock option plan

into unvested stock options to purchase approximately 143,000 shares of Fluidigm common stock and the unvested DVS restricted stock into approximately 186,000 shares of restricted Fluidigm common stock, retaining the original vesting schedules. The fair value of all converted share-based awards was $14.6 million, of which $4.0 million was attributed to the pre-combination service period and was included in the calculation of the purchase price. The remaining fair value will be recognized over the awards' remaining vesting periods subsequent to the acquisition. The fair value of the Fluidigm equivalent share-based awards as of the Acquisition Date was estimated using the Black-Scholes valuation model.

Approximately 885,000 shares of Fluidigm common stock, with a fair value of $38.6 million, representing 50.3030% of the shares otherwise payable to the former stockholders of DVS, were deposited into escrow. These shares comprise a portion of the merger consideration and will be held in escrow to secure indemnification obligations under the merger agreement, if any, for a period of 13 to 18 months following the Acquisition Date, subject to any then pending indemnification claims.

Prior to the closing of the acquisition, we closed an underwritten public offering of $201.3 million aggregate principal amount of our Notes (See Note 3) to fund a portion of the cash consideration payable in connection with the acquisition. The results of DVS's operations have been included in the condensed consolidated financial statements for the period from February 13, 2014 to September 30, 2014.

As of September 30, 2014, the accounting for the acquisition is preliminary due to the ongoing analysis of the developed technology relating to intellectual property rights acquired in connection with the acquisition, associated royalty obligations pursuant to third-party license agreements, and certain tax liabilities. Upon completion of this analysis and during the measurement period, we may record adjustments to the estimated amounts recorded.

10

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

Net Assets Acquired

The transaction has been accounted for using the acquisition method of accounting which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the assets acquired and liabilities assumed as of the Acquisition Date (in thousands):

	Allocation of purchase price
Cash and cash equivalents	$8,405
Accounts receivable, net	7,698
Inventories	3,489
Prepaid expenses and other current assets	1,482
Property and equipment, net	1,202
Developed technology	112,000
Goodwill	104,245
Other non-current assets	88
Total assets acquired	238,609
Accounts payable	(1,114)
Accrued compensation and related benefits	(761)
Other accrued liabilities	(1,204)
Deferred revenue, current portion	(1,844)
Tax payable	(45)
Deferred tax liability	(32,079)
Deferred revenue, net of current portion	(1,629)
Net assets acquired	$199,933

The following table is a summary of the fair value estimate of the identifiable intangible asset (in thousands) and its useful life:

	Useful Life	Estimated Fair Value
Developed technology	10 years	$112,000

The $104.2 million of goodwill recognized as part of the transaction is attributable primarily to expected synergies and other benefits from the acquisition and is not expected to be deductible for income tax purposes.

Acquisition Costs

Acquisition-related expenses were $10.7 million for the nine months ended September 30, 2014 and primarily included accelerated vesting of certain DVS restricted stock and options, and consulting, legal, and investment banking fees. These costs are included within the acquisition-related expenses line of the condensed consolidated statements of operations.

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

Unaudited Pro Forma Results

The unaudited financial information in the table below summarizes our results of operations combined with DVS's as though the companies were combined as of the beginning of each of the periods presented. The unaudited pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the fiscal reporting periods indicated nor is it indicative of future operating results.

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Pro forma total revenue	$29,634	$25,862	$86,755	$68,810
Pro forma net loss	$(13,790)	$(9,142)	$(44,305)	$(29,679)

5. Goodwill and Intangible Assets

Goodwill

Upon the acquisition of DVS, we acquired $104.2 million of goodwill. There were no changes in goodwill between the Acquisition Date and September 30, 2014.

Intangible Assets

The following table provides details of our intangible assets related to the DVS acquisition as of September 30, 2014 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Useful Life (years)
Developed technology	$ 112,000	$ (7,000)	$ 105,000	10

We recognized $2.8 million and $7.0 million in intangible asset amortization expense during the three and nine months ended September 30, 2014, respectively. The estimated future amortization expense of intangible assets as of September 30, 2014 is as follows (in thousands):

	Amount
2014 (remainder of year)	$ 2,800
2015	11,200
2016	11,200
2017	11,200
2018	11,200
Thereafter	57,400
	$ 105,000

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

6. Balance Sheet Details

Inventories

Inventories consist of the following (in thousands):

	September 30, 2014	December 31, 2013
Raw materials	$5,187	$2,650
Work-in-process	3,205	1,627
Finished goods	8,568	3,871
	$16,960	$8,148

Property and Equipment, net

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

	September 30, 2014	December 31, 2013
Computer equipment and software	$3,340	$2,728
Laboratory and manufacturing equipment	15,839	13,972
Leasehold improvements	4,485	1,485
Office furniture and fixtures	1,578	822
	25,242	19,007
Less accumulated depreciation and amortization	(15,503)	(14,470)
Construction-in-progress	2,929	2,281
Property and equipment, net	$12,668	$6,818

7. Fair Value of Financial Instruments

As a basis for considering fair value, we follow a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level I: observable inputs such as quoted prices in active markets;

Level II: inputs other than quoted prices in active markets that are observable either directly or indirectly; and

Level III: unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions.

Our cash equivalents, which include money market funds, are classified as Level I because they are valued using quoted market prices. Our investments are generally classified as Level II because their value is based on valuations using significant inputs derived from or corroborated by observable market data. Depending on the security, the income and market approaches are used in the model driven valuations. Inputs of these models include recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

The following table sets forth our financial instruments that were measured at fair value by level within the fair value hierarchy (in thousands):

	September 30, 2014				December 31, 2013			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Money market funds	$10,564	$—	$—	$10,564	$17,547	$—	$—	$17,547
U.S. government and agency securities	—	116,286	—	116,286	—	51,025	—	51,025
Total assets measured at fair value	$10,564	$116,286	$—	$126,850	$17,547	$51,025	$—	$68,572

There were no significant transfers in and out of Level I and Level II fair value measurement categories during the three and nine months ended September 30, 2014 and 2013.

The following is a summary of investments at September 30, 2014 and December 31, 2013 (in thousands):

	September 30, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	$116,279	$16	$(9)	$116,286

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	$51,012	$17	$(4)	$51,025

The contractual maturity dates of $64.3 million of our investments are within one year from September 30, 2014. The contractual maturity dates of our remaining securities are less than eighteen months from September 30, 2014.

Based on an evaluation of securities that were in a loss position, we did not recognize any other-than-temporary impairment charges for the three and nine months ended September 30, 2014 and 2013. All of these investments have been in a continuous loss position for less than 12 months. Our conclusion that these losses are not "other-than-temporary" is based on the high credit quality of the securities, their short remaining maturity and our intent and ability to hold such securities until the date of recovery of their respective market values or maturity.

The following is a summary of our cash and cash equivalents (in thousands):

	September 30, 2014	December 31, 2013
Cash	$20,375	$17,714
Money market funds	10,564	17,547
Cash and cash equivalents	$30,939	$35,261

At September 30, 2014, we had approximately $0.1 million in restricted cash which is included in other non-current assets on the condensed consolidated balance sheets.

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

8. Line of Credit

A bank line of credit, as amended, provides us with the ability to borrow up to $10.0 million, of which $6.0 million is available on a non-formula basis, subject to certain covenants and other restrictions. The balance of $4.0 million is available based on eligible receivables. The line of credit expires in December 2014 and is collateralized by our assets, excluding our intellectual property, and bears interest at a rate equal to the greater of (i) 3.75% or (ii) the prime rate plus 0.50% per year. On May 9, 2014, we entered into a modification agreement with the lender to amend and waive certain financial covenants under the financing agreement, effective as of March 31, 2014. On July 31, 2014, we entered into a modification agreement with the lender to amend and waive the financial covenant under the financing agreement regarding our effective tangible net worth amount, which cannot at any time exceed a deficit of more than $100.0 million, effective as of June 30, 2014. Except to the extent specifically amended pursuant to the modification agreements, the financing agreement remains in full force and effect. As of September 30, 2014, there was no outstanding balance on the line of credit and we were in compliance with all applicable covenants under the financing agreement.

9. Commitments and Contingencies

Operating Leases

On April 9, 2013, we entered into an amendment (the 2013 Amendment) to the lease agreement dated September 14, 2010 (as amended, the Lease) relating to the lease of office and laboratory space at our corporate headquarters located in South San Francisco, California. The 2013 Amendment provided for an expansion of the premises covered under the Lease, effective April 1, 2014; an extension of the term of the Lease to April 30, 2020 with an option to renew for an additional five years; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The 2013 Amendment also provided for an allowance of approximately $0.7 million for tenant improvements, which, to the extent not used by March 31, 2015, will be used to offset base rent obligations, and an additional allowance of approximately $0.5 million for tenant improvements, which, if used, will be repaid in equal monthly payments with interest at a rate of 9% per annum over the remaining term of the Lease.

On June 4, 2014, we entered into an additional amendment to the Lease (the June 2014 Amendment), which provided for an expansion of the premises covered under the Lease by approximately 13,000 square feet, effective October 1, 2014; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The June 2014 Amendment also provided for an allowance of approximately $0.2 million for tenant improvements, which, to the extent not used by March 31, 2015, will be used to offset base rent obligations, and an additional allowance of approximately $0.1 million for tenant improvements, which, if used, will be repaid in equal monthly payments with interest at a rate of 9% per annum over the remaining term of the Lease. The total future minimum lease payments for the additional space, which will be paid through April 2020, are approximately $2.5 million as of September 30, 2014.

On September 15, 2014, we entered into an additional amendment to the Lease (the September 2014 Amendment), which provided for an expansion of the premises covered under the Lease by approximately 9,000 square feet, effective October 1, 2014; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The September 2014 Amendment also provided for an allowance of approximately $0.2 million for tenant improvements. The total future minimum lease payments for the additional space, which will be paid through April 2020, are approximately $1.7 million as of September 30, 2014.

On October 14, 2013, Fluidigm Singapore Pte. Ltd., our wholly-owned subsidiary (Fluidigm Singapore), accepted an offer of tenancy (Lease) from HSBC Institutional Trust Services (Singapore) Limited, as trustee of Ascendas Real Estate Investment Trust (Landlord), relating to the lease of a new facility located in Singapore. Pursuant to the terms of the Lease, Fluidigm Singapore took possession of the facility commencing on March 3, 2014 for a term of 99

months, and the Lease and rental obligations thereunder commenced on June 3, 2014. The Lease also provides Fluidigm Singapore with an option to renew the Lease for an additional 60 months at the then prevailing market rent, and on similar terms as the existing Lease. In June 2014, Fluidigm Singapore leased additional space of approximately 2,400 square feet in the same building as the new facility on the same terms as the Lease. We completed the consolidation of our Singapore manufacturing operations in the new space in July 2014 and the site qualification was completed in August 2014. The leases relating to our prior manufacturing facility in Singapore terminated on August 31, 2014. The total future minimum lease payments for the additional space, which will be paid through June 2022, are approximately $259,000 as of September 30, 2014.

In connection with our acquisition of DVS (See Note 4), we assumed the operating leases for facilities in Sunnyvale, California and Markham, Ontario, Canada, which expire in January 2016 and July 2016, respectively. The Canada lease includes

Table of Contents

an option to renew the lease for an additional five years at the then prevailing market rent, and on similar terms as the existing lease. We recognize rent expense on a straight-line basis over the non-cancelable lease term. The total future minimum lease payments for the assumed operating leases in Sunnyvale, California and Markham, Ontario, Canada are approximately $550,000 as of September 30, 2014.

Warranty

We accrue for estimated warranty obligations at the time of product shipment. Management periodically reviews the estimated fair value of its warranty liability and records adjustments based on the terms of warranties provided to customers, historical and anticipated warranty claim experience. Activity for our warranty accrual for the three and nine months ended September 30, 2014 and 2013, which is included in other accrued liabilities, is summarized below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Beginning balance	$1,095	$288	$344	$257
Acquired warranty obligation from DVS	—	—	791	—
Warranty accrual, net	199	25	159	56
Ending balance	$1,294	$313	$1,294	$313

Legal Matters

From time to time, we may be subject to various legal proceedings and claims arising in the ordinary course of business. We assess contingencies to determine the degree of probability and range of possible loss for potential accrual in our financial statements. An estimated loss contingency is accrued in the financial statements if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

On November 6, 2012, we filed a complaint against NanoString Technologies, Inc., or NanoString, in the United States District Court in the Northern District of California (Civil Action No. 12-5712), alleging claims of false advertising, unfair competition, and unlawful trade practice in violation of the Lanham Act and corresponding sections of the California Business & Professions Code. Our complaint sought to enjoin NanoString from continuing to make or disseminate any of the false and misleading claims, misrepresenting and/or exaggerating the performance of its product in comparison with our BioMark System, to require NanoString to retract, remove, or correct the false and misleading advertising claims, and to recover damages and other relief for harm caused to us by NanoString. We also filed a lawsuit against NanoString in the High Court of the Republic of Singapore (Case No. S 282/2013) on April 5, 2013 alleging malicious falsehood in advertising and trademark infringement and sought relief similar to the relief sought in our complaint filed in the United States. On September 30, 2013, we and NanoString agreed to settle the lawsuits. The terms of the settlement require NanoString to, among other things, pay us $0.6 million, remove all references - from its marketing materials, website, and promotional activities - to a single-cell comparison study comparing Fluidigm and NanoString single-cell products, as well as recall and destroy all materials related to and/or based on the study. The case brought in the United States District Court in the Northern District of California was dismissed on October 22, 2013, and the case brought in Singapore was discontinued on October 29, 2013.

Pursuant to the terms of a patent cross license agreement with Applied Biosystems, LLC (a subsidiary of Life Technologies Corporation, or Life, and now part of Thermo Fisher Scientific), we were obligated to make a $1.0 million payment to Life upon satisfaction of certain conditions. We do not believe that the conditions triggering the payment obligation have been met; however, on October 16, 2013, Life provided notice that the $1.0 million payment was due and payable under the license agreement. We accrued a loss contingency of $1.0 million on September 30, 2013 and on January 30, 2014, we paid Life the amount due while reserving our rights with respect to such matter. Among other reasons, we made the payment to avoid what would have been, in our view, an improper termination of our license to certain Life patent filings under the agreement, which could have subjected our relevant product lines to risks associated with patent infringement litigation.

10. Stock-Based Compensation

During the three and nine months ended September 30, 2014, we granted certain employees options to purchase 22,000 and 425,000 shares of common stock, respectively. The options granted during the three months ended September 30, 2014 had exercise prices ranging from $27.00 to $28.63 and a total grant date fair value of $0.3 million. The options granted during the nine months ended September 30, 2014 had exercise prices ranging from $27.00 to $47.55 and a total grant date fair value of $10.1 million.

Table of Contents
FLUIDIGM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(unaudited)

During the three and nine months ended September 30, 2014, we granted certain employees 42,000 and 365,000 restricted stock units, respectively. The restricted stock units granted during the three months ended September 30, 2014 had fair market values ranging from $24.50 to $31.26 and a total grant date fair value of $1.2 million. The restricted stock units granted during the nine months ended September 30, 2014 had fair market values ranging from $24.50 to $47.55 and a total grant date fair value of $15.9 million. The fair value of restricted stock units is determined based on the value of the underlying common stock on the date of grant.

The expenses relating to these options and restricted stock units will be recognized over their respective four-year vesting periods.

We recognized stock-based compensation expense of $6.0 million and $1.7 million during the three months ended September 30, 2014 and 2013, respectively. We recognized stock-based compensation expense of $15.3 million and $4.7 million during the nine months ended September 30, 2014 and 2013, respectively. As of September 30, 2014, we had $20.1 million and $15.9 million of unrecognized stock-based compensation costs related to stock options and restricted stock units, respectively, which are expected to be recognized over a weighted average period of 2.5 years and 3.0 years, respectively.

In conjunction with the DVS acquisition, we assumed all outstanding DVS stock options and unvested shares of restricted stock (See Note 4). As of September 30, 2014, we had $1.5 million and $2.4 million of unrecognized stock-based compensation costs related to the assumed stock options and restricted stock, respectively, which are expected to be recognized over a remaining weighted average period of 1.6 years and 0.4 years, respectively.

11. Income Taxes

Income taxes are primarily comprised of state and foreign income taxes. The provision or benefit for income taxes for the periods presented differs from the 34% U.S. Federal statutory rate primarily due to maintaining a valuation allowance for U.S. losses and tax assets, which we do not consider to be realizable. Income tax expense primarily consists of amounts payable in foreign jurisdictions. As a result of the intangible assets arising from the DVS acquisition (See Note 4), we recorded foreign and California deferred tax liabilities of approximately $30.0 million and approximately $2.0 million, respectively. The related valuation allowance associated with our California deferred tax assets was released and recorded as an income tax benefit in the quarter ended March 31, 2014. Additional tax benefit was recorded in the quarter ended September 30, 2014 attributable to the acquired entity's operating losses and its related deferred tax liabilities from the amortization of acquired intangible assets.

12. Information about Geographic Areas

We operate in one reporting segment, which is the development, manufacturing, and commercialization of life science analytical and preparatory systems consisting of instruments and consumables for academic institutions, clinical laboratories, and pharmaceutical, biotechnology, and Ag-Bio companies in growth markets, such as single-cell biology and production genomics.

The following table presents our product revenue by geography based on the billing address of our customers for each period presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
United States	$16,711	$10,145	$42,149	$27,213
Europe	8,077	3,962	21,991	11,899
Japan	958	2,620	5,670	4,504
Asia-Pacific	2,792	897	9,496	4,375
Other	1,026	421	3,186	1,575

Total	$29,564	$18,045	$82,492	$49,566

Our license and grant revenues are primarily generated in the United States. No individual customer represented more than 10% of our revenues for the three and nine month periods ended September 30, 2014 and 2013.

Table of Contents

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

The following discussion and analysis should be read together with our condensed consolidated financial statements and the notes to those statements included elsewhere in this Form 10-Q. This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the section entitled "Risk Factors" and this Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements include information concerning our possible or assumed future cash flow, revenue, sources of revenue and results of operations, operating and other expenses, unit sales, business strategies, financing plans, expansion of our business, competitive position, industry environment, potential growth opportunities, and the effects of competition.

Forward-looking statements include statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects "would," or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in Part II, Item 1A, "Risk Factors," elsewhere in this Form 10-Q, and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Form 10-Q.

Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. You should read this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

"Fluidigm," the Fluidigm logo, "BioMark," "Access Array," "CyTOF," "EP1," "SNPtype," and "DELTAgene" are trademarks o registered trademarks of Fluidigm Corporation. Other service marks, trademarks, and trade names referred to in this Form 10-Q are the property of their respective owners.

In this Form 10-Q, "we," "us" and "our" refer to Fluidigm Corporation and its subsidiaries.

Overview

We develop, manufacture, and market life science analytical and preparatory systems for growth markets such as single-cell biology and production genomics. We sell to leading academic institutions, clinical laboratories, and pharmaceutical, biotechnology, and agricultural biotechnology, or Ag-Bio, companies worldwide. Our systems are based on proprietary microfluidics and multi-parameter mass cytometry technology, and are designed to significantly simplify experimental workflow, increase throughput, and reduce costs, while providing excellent data quality. We have sold approximately 1,230 systems to customers in 35 countries worldwide (including 74 instruments sold by DVS prior to our acquisition in February 2014).

We have launched several product lines since 2006, including systems for gene expression analysis, genotyping, digital polymerase chain reaction, or digital PCR, single nucleotide polymorphism genotyping, or SNP genotyping, target enrichment, high-throughput gene expression analysis, targeted single-cell gene expression analysis, and single-cell sample preparation. In May 2011, we launched assay products for gene expression and genotyping, and primers for targeted next-generation DNA sequencing. Our genomics systems utilize one or more integrated fluidic circuits, or IFCs, designed for particular applications and include specialized instrumentation and software, as well as assays and other reagents for certain applications. Additionally, pursuant to our acquisition of DVS Sciences, Inc. (now Fluidigm Sciences Inc.), or DVS, on February 13, 2014, we now also develop, manufacture, market, and sell multi-parameter single-cell protein analysis systems and related reagents and data analysis tools.

We distribute our systems through our direct sales force and support organizations located in North America, Europe, and Asia-Pacific, and through distributors or sales agents in several European, Latin American, Middle Eastern, and

Asia-Pacific countries. Our manufacturing operations are primarily located in Singapore and Canada. Our facility in Singapore manufactures our genomics analytical and preparatory instruments, several of which are assembled at facilities of our contract manufacturers in Singapore, with testing and calibration of the assembled products performed at our Singapore facility. All of our IFCs for commercial sale and some IFCs for our research and development purposes are also fabricated at our Singapore facility. Our proteomics analytical instruments are manufactured at our facility in Canada, and our assays and reagents for commercial sale and IFCs for our research and development purposes are manufactured at our facilities in South San Francisco and Sunnyvale, California.

Table of Contents

Our total revenue grew from $52.3 million in 2012 to $71.2 million in 2013, and for the nine months ended September 30, 2014, our total revenue was $83.0 million. We have incurred significant net losses since our inception in 1999 and, as of September 30, 2014, our accumulated deficit was $299.2 million.

Critical Accounting Policies, Significant Judgments and Estimates

Our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Changes in accounting estimates may occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. We evaluate our estimates and assumptions on an ongoing basis. To the extent there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

Except as otherwise disclosed, there have been no material changes in our critical accounting policies and estimates in the preparation of our condensed consolidated financial statements during the nine months ended September 30, 2014 compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on March 12, 2014.

During the nine months ended September 30, 2014, we have revised or added the following significant accounting policies:

Business Combinations

Assets acquired and liabilities assumed as part of a business acquisition are generally recorded at their fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. Accounting for business acquisitions requires management to make judgments as to whether a purchase transaction is a multiple element contract, meaning that it includes other transaction components such as a settlement of a preexisting relationship. This judgment and determination affects the amount of consideration paid that is allocable to assets and liabilities acquired in the business purchase transaction.

Long-lived Assets, including Goodwill

Goodwill and intangible assets with indefinite lives are not subject to amortization, but are tested for impairment on an annual basis during the fourth quarter or whenever events or changes in circumstances indicate the carrying amount of these assets may not be recoverable. We first conduct an assessment of qualitative factors to determine whether it is more likely than not that the fair value of our reporting unit is less than its carrying amount. If we determine that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, we then conduct a two-step test for impairment of goodwill. In the first step, we compare the fair value of our reporting unit to its carrying values. If the fair values of our reporting unit exceed the carrying value of the net assets, goodwill is not considered impaired and no further analysis is required. If the carrying values of the net assets exceed the fair values of the reporting unit, then the second step of the impairment test must be performed in order to determine the implied fair value of the goodwill. If the carrying value of the goodwill exceeds the implied fair value, then an impairment loss equal to the difference would be recorded.

We evaluate our finite lived intangible assets for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If any indicator of impairment exists, we assess the recoverability of the affected intangible assets by determining whether the carrying value of the asset can be recovered through undiscounted future operating cash flows. If impairment is indicated, we estimate the asset’s fair value using future discounted cash flows associated with the use of the asset, and adjust the carrying value of the asset accordingly.

Table of Contents

Results of Operations

The following table presents our historical condensed consolidated statements of operations data for the three and nine months ended September 30, 2014 and 2013, and as a percentage of total revenue for the respective period ($ in thousands):

	Three Months Ended September 30,				Nine months ended September 30,			
	2014	2014	2013	2013	2014	2014	2013	2013
Revenue:								
Total revenue	$29,635	100 %	$18,287	100 %	$82,966	100 %	$50,302	100 %
Costs and expenses:								
Cost of product revenue	11,421	38	5,138	28	30,080	36	14,273	28
Research and development	12,687	43	5,004	27	31,707	38	14,198	28
Selling, general and administrative	18,574	63	12,097	66	52,486	63	34,840	70
Litigation settlement	—	—	1,000	6	—	—	1,000	2
Acquisition-related expenses	—	—	—	—	10,696	13	—	—
Total costs and expenses	42,682	144	23,239	127	124,969	150	64,311	128
Loss from operations	(13,047)	(44)	(4,952)	(27)	(42,003)	(50)	(14,009)	(28)
Interest expense	(1,453)	(5)	(1)	—	(3,894)	(5)	(13)	—
Gain from sale of investment in Verinata	332	1	—	—	332	—	1,777	3
Other (expense) income, net	(338)	(1)	709	4	(308)	—	457	1
Loss before income taxes	(14,506)	(49)	(4,244)	(23)	(45,873)	(55)	(11,788)	(24)
Benefit from (provision for) income taxes	716	2	(42)	—	3,987	5	(95)	—
Net loss	$(13,790)	(47)%	$(4,286)	(23)%	$(41,886)	(50)%	$(11,883)	(24)%

Revenue

We generate revenue from sales of our products, license agreements, and government grants. Our product revenue consists of sales of instruments and related services, and consumables, including IFCs, assays, and other reagents. We have entered into license agreements and have received government grants to conduct research and development activities.

The following table presents our revenue by source for each period presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue:				
Instruments	$17,850	$10,894	$48,327	$28,964
Consumables	11,714	7,151	34,165	20,602
Product revenue	29,564	18,045	82,492	49,566
License revenue	71	78	257	242
Grant revenue	—	164	217	494
Total revenue	$29,635	$18,287	$82,966	$50,302

Table of Contents

The following table presents our product revenue by geography and as a percentage of total product revenue by geography based on the billing address of our customers for each period presented ($ in thousands):

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2014			2013			2014			2013		
United States	$16,711	57	%	$10,145	56	%	$42,149	51	%	$27,213	55	%
Europe	8,077	27	%	3,962	22	%	21,991	27	%	11,899	24	%
Japan	958	3	%	2,620	15	%	5,670	7	%	4,504	9	%
Asia-Pacific	2,792	9	%	897	5	%	9,496	11	%	4,375	9	%
Other	1,026	4	%	421	2	%	3,186	4	%	1,575	3	%
Total	$29,564	100	%	$18,045	100	%	$82,492	100	%	$49,566	100	%

Our customers include academic research institutions, clinical laboratories, and pharmaceutical, biotechnology, and Ag-Bio companies worldwide. Total revenue from our five largest customers in each of the periods presented comprised 15% and 16% of our total revenue in the three and nine months ended September 30, 2014, respectively, and 21% and 18% of our total revenue in the three and nine months ended September 30, 2013, respectively.

Comparison of the Three Months Ended September 30, 2014 and September 30, 2013

Total Revenue

Total revenue increased by $11.3 million, or 62%, to $29.6 million for the three months ended September 30, 2014, compared to $18.3 million for the three months ended September 30, 2013.

Product Revenue

Product revenue increased by $11.5 million, or 64%, to $29.6 million for the three months ended September 30, 2014, compared to $18.0 million for the three months ended September 30, 2013.

Instrument revenue increased by $7.0 million, or 64%, primarily driven by the impact of our CyTOF 2 systems which we commenced selling upon the acquisition of DVS, and increased net unit sales of both preparatory and analytical systems. Higher sales of service offerings, including service related to CyTOF 2 systems, also contributed to the increase in instrument revenue. Instrument revenue growth, excluding revenue attributable to the recently acquired operations of DVS, was 29% for the three months ended September 30, 2014 compared to the comparable period in 2013.

Consumables revenue increased by $4.6 million, or 64%, primarily due to growth in IFC sales. Sales from our recently acquired antibody consumables and, to a lesser extent, higher sales of our reagents and assays also contributed to the overall increase in consumables revenue. Consumables revenue growth, excluding revenue attributable to the recently acquired operations of DVS, was 48% for the three months ended September 30, 2014 compared to the same period in 2013 driven equally by growth in production genomics and single-cell genomics applications. Annualized IFC pull-through for our genomics analytical systems was within our historical range of $40,000 to $50,000 per system and our expected range of $15,000 to $25,000 per system for our genomics preparatory systems. Annualized consumables pull-through for our proteomics analytical systems was within the historical range of $50,000 to $70,000 per system.

We expect total unit sales of both instruments and consumables to increase over time as we continue our efforts to grow our customer base, expand our geographic market coverage, and launch new products. However, we expect the average selling prices of our products to fluctuate over time based on market conditions, product mix, and currency fluctuations.

Grant Revenue

Grant revenue consists of a grant from California Institute for Regenerative Medicine, or CIRM. Our CIRM grant was awarded in 2011 in the amount of $1.9 million to be earned over a three-year period which ended in April 2014. The CIRM grant revenue is recognized as the related research and development services are performed and costs associated with the grants are recognized as research and development expense during the period incurred.

We did not receive any grant revenue for the three months ended September 30, 2014. Grant revenue was $164,000 for the three months ended September 30, 2013.

21

Table of Contents

Cost of Product Revenue

The following table presents our cost of product revenue and product margin for each period presented (in thousands, other than percentages):

	Three Months Ended September 30,			
	2014		2013	
Cost of product revenue	$11,421		$5,138	
Product margin	61	%	72	%

Cost of product revenue includes manufacturing costs incurred in the production process, including component materials, labor and overhead, installation, packaging, and delivery costs. In addition, cost of product revenue includes amortization of developed technology, royalty costs for licensed technologies included in our products, warranty, service, provisions for slow-moving and obsolete inventory, and stock-based compensation expense. Costs related to license and grant revenue are included in research and development expense.

Cost of product revenue increased by $6.3 million, or 122%, to $11.4 million for the three months ended September 30, 2014 from $5.1 million for the three months ended September 30, 2013. Cost of product revenue for the three months ended September 30, 2014 includes $2.9 million of amortization of acquired intangible assets and inventory fair-value write-up resulting from our recent acquisition of DVS with no corresponding charges in the comparable period in 2013. Overall cost of product revenue as a percentage of related revenue was 39% (including 10 percentage points related to these charges) and 28% for the three months ended September 30, 2014 and 2013, respectively.

Product margin declined 11 percentage points for the three months ended September 30, 2014 compared to the corresponding period in 2013 primarily because of the acquisition-related charges described above, and higher instrument warranty costs, partially offset by favorable changes in the mix of both instruments and consumables sold.

Operating Expenses

The following table presents our operating expenses for each period presented (in thousands):

	Three Months Ended September 30,	
	2014	2013
Research and development	$12,687	$5,004
Selling, general and administrative	18,574	12,097
Total operating expenses	$31,261	$17,101

Research and Development

Research and development expense consists primarily of personnel and independent contractor costs, prototype and material expenses, and other allocated facilities and information technology expenses. We have made substantial investments in research and development since our inception. Our research and development efforts have focused primarily on enhancing our technologies and supporting development and commercialization of new and existing products and services.

Research and development expense increased $7.7 million, or 154%, to $12.7 million for the three months ended September 30, 2014, compared to $5.0 million for the three months ended September 30, 2013, primarily attributable to higher headcount and compensation-related costs of $4.3 million, increases in lab supplies and equipment costs of $2.3 million, outside services of $0.6 million, and other expenses of $0.5 million. These increases were primarily driven by the acquisition of DVS Sciences in February 2014 and to support our revenue growth through both new and existing products and services.

We believe that our continued investment in research and development is essential to our long-term competitive position and these expenses may increase in future periods.

Selling, General and Administrative

Selling, general and administrative expense consists primarily of personnel costs for our sales and marketing, business development, finance, legal, human resources, and general management, as well as professional services, such as legal

and accounting services.

Table of Contents

Selling, general and administrative expense for the three months ended September 30, 2014 increased $6.5 million, or 54%, to $18.6 million, compared to $12.1 million for the three months ended September 30, 2013. The increase was primarily attributable to higher headcount and compensation-related costs of $3.7 million, increases in legal, accounting and other professional fees of $1.5 million, trade shows and other marketing expenses of $0.5 million, and other expenses of $0.8 million. These increases were primarily driven by the acquisition of DVS Sciences in February 2014, the expansion of our worldwide commercial capabilities, and to a lesser extent, general and administrative expense to support our growth.

We expect selling, general and administrative expense to increase in future periods as we continue to grow our sales, technical support, marketing, and administrative headcount, support increased product sales, broaden our customer base, and incur additional costs to support our expanding global footprint and the overall growth in our business.

Litigation Settlement

Pursuant to the terms of a patent cross license agreement with Applied Biosystems, LLC (a subsidiary of Life Technologies Corporation, or Life, and now part of Thermo Fisher Scientific), we were obligated to make a $1.0 million payment to Life upon satisfaction of certain conditions. We do not believe that the conditions triggering the payment obligation have been met; however, on October 16, 2013, Life provided notice that the $1.0 million payment was due and payable under the license agreement. We accrued a loss contingency of $1.0 million on September 30, 2013 and on January 30, 2014, we paid Life the amount due while reserving our rights with respect to such matter. Among other reasons, we made the payment to avoid what would have been, in our view, an improper termination of our license to certain Life patent filings under the agreement, which could have subjected our relevant product lines to risks associated with patent infringement litigation. Litigation expense for the three months ended September 30, 2014 and September 30, 2013 was zero and $1.0 million, respectively.

Interest Expense and Other Income and Expense, Net

We have incurred interest expense and amortization of debt discount related to our long-term debt. The following table presents interest expense and other (expense) income, net for each period presented (in thousands):

	Three Months Ended September 30,	
	2014	2013
Interest expense	$(1,453)	$(1)
Gain from sale of investment in Verinata	332	