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FLUIDIGM CORP

Form 10-Q

August 08, 2017

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

or

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

For the transition period from _____ to _____

Commission file number: 001-34180

FLUIDIGM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 77-0513190
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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 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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

Emerging Growth company

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

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

As of July 28, 2017, there were 29,414,235 shares of the Registrant's common stock, \$0.001 par value per share, outstanding.

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

	June 30, 2017	December 31, 2016 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	\$39,597	\$35,045
Short-term investments	2,434	24,385
Accounts receivable (net of allowances of \$394 at June 30, 2017 and \$502 at December 31, 2016)	13,659	14,610
Inventories	18,765	20,114
Prepaid expenses and other current assets	4,670	2,517
Total current assets	79,125	96,671
Property and equipment, net	13,966	16,525
Other non-current assets	7,310	9,291
Developed technology, net	74,200	79,800
Goodwill	104,108	104,108
Total assets	\$278,709	\$306,395
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$3,858	\$3,967
Accrued compensation and related benefits	7,871	3,996
Other accrued liabilities	13,498	12,374
Deferred revenue, current	9,097	9,163
Total current liabilities	34,324	29,500
Convertible notes, net	195,094	194,951
Deferred tax liability, net	16,729	21,140
Deferred revenue, non-current	4,012	4,315
Other non-current liabilities	4,613	3,256
Total liabilities	254,772	253,162
Commitments and contingencies (see Note 7)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000 shares authorized, no shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, \$0.001 par value, 200,000 shares authorized at June 30, 2017 and December 31, 2016; 29,415 and 29,208 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	29	29
Additional paid-in capital	498,351	493,441
Accumulated other comprehensive loss	(648)	(760)
Accumulated deficit	(473,795)	(439,477)
Total stockholders' equity	23,937	53,233
Total liabilities and stockholders' equity	\$278,709	\$306,395

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue:				
Product revenue	\$ 19,500	\$ 24,733	\$ 40,807	\$ 50,103
Service revenue	4,319	3,389	8,486	6,933
License revenue	93	46	152	135
Total revenue	23,912	28,168	49,445	57,171
Costs and expenses:				
Cost of product revenue	10,794	11,239	21,644	22,026
Cost of service revenue	1,169	1,248	2,288	2,446
Research and development	7,461	9,978	15,986	20,390
Selling, general and administrative	20,975	23,845	43,551	49,320
Total costs and expenses	40,399	46,310	83,469	94,182
Loss from operations	(16,487)	(18,142)	(34,024)	(37,011)
Interest expense	(1,456)	(1,453)	(2,911)	(2,906)
Other income (expense), net	183	(44)	193	(368)
Loss before income taxes	(17,760)	(19,639)	(36,742)	(40,285)
Benefit from income taxes	827	1,022	2,608	1,784
Net loss	\$(16,933)	\$(18,617)	\$(34,134)	\$(38,501)
Net loss per share, basic and diluted	\$(0.58)	\$(0.64)	\$(1.17)	\$(1.33)
Shares used in computing net loss per share, basic and diluted	29,344	28,944	29,292	28,904
See accompanying notes.				

Table of Contents**FLUIDIGM CORPORATION**
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS*(In thousands)**(Unaudited)*

	Three Months Ended June		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	\$(16,933)	\$(18,617)	\$(34,134)	\$(38,501)
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	76	4	110	182
Net change in unrealized gain on investments	1	23	2	104
Other comprehensive income, net of tax	77	27	112	286
Comprehensive loss	\$(16,856)	\$(18,590)	\$(34,022)	\$(38,215)
See accompanying notes.				

Table of Contents**FLUIDIGM CORPORATION**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS*(In thousands)**(Unaudited)*

	Six Months Ended June 30,	
	2017	2016
Operating activities		
Net loss	\$(34,134)	\$(38,501)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,088	3,245
Stock-based compensation expense	4,775	7,447
Amortization of developed technology	5,600	5,600
Other non-cash items	(417)) 554
Changes in assets and liabilities:		
Accounts receivable, net	921	6,011
Inventories	1,122	(860)
Prepaid expenses and other current assets	(2,169)) (171)
Other non-current assets	1,388	(133)
Accounts payable	248	(980)
Deferred revenue	(416)) 416
Other current liabilities	4,879	2,824
Other non-current liabilities	(2,663)) (598)
Net cash used in operating activities	(16,778)) (15,146)
Investing activities		
Purchases of investments	(1,452)) (34,559)
Proceeds from sales and maturities of investments	23,375	56,387
Proceeds from sale of investment in Verinata	—	2,330
Purchases of property and equipment	(834)) (2,662)
Net cash provided by investing activities	21,089	21,496
Financing activities		
Proceeds from exercise of stock options, net of taxes paid	(46)) 134
Net cash (used in) provided by financing activities	(46)) 134
Effect of foreign exchange rate fluctuations on cash and cash equivalents	287	297
Net increase in cash and cash equivalents	4,552	6,781
Cash and cash equivalents at beginning of period	35,045	29,117
Cash and cash equivalents at end of period	\$39,597	\$35,898
See accompanying notes.		

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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 create, manufacture, and market innovative technologies and tools for life sciences research. We sell instruments and consumables, including integrated fluidic circuits, or IFCs, assays and reagents, to academic institutions, clinical research laboratories, and biopharmaceutical, biotechnology, and agricultural biotechnology, or Ag-Bio, companies and contract research organizations, or CROs. Our technologies and tools are directed at the analysis of deoxyribonucleic acid, or DNA, ribonucleic acid, or RNA, and proteins in a variety of different sample types, from individual cells to bulk tissue.

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, 2016 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 statement of our financial information. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017 or for any other interim period or for any other future year. All intercompany accounts and transactions have been eliminated upon consolidation.

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 accompanying notes in Item 8 of Part II, "Financial Statements and Supplementary Data," for the year ended December 31, 2016 included in our Annual Report on Form 10-K.

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.

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Table of Contents**FLUIDIGM CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Unaudited)**

The following potentially dilutive common shares were excluded from the computation of diluted net loss per share for the three and six months ended June 30, 2017 and 2016 because they would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options, restricted stock units and performance awards	4,528	4,835	4,528	4,835
Convertible notes	3,598	3,598	3,598	3,598
Total	8,126	8,433	8,126	8,433

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, for the three and six months ended June 30, 2017 are summarized as follows (in thousands):

	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Securities	Accumulated Other Comprehensive Loss
Balance at December 31, 2016	\$ (758)	\$ (2)	\$ (760)
Other comprehensive income	34	1	35
Balance at March 31, 2017	(724)	(1)	(725)
Other comprehensive income	76	1	77
Balance at June 30, 2017	\$ (648)	\$ —	\$ (648)

De minimus amounts of unrealized gains and losses have been reclassified into the condensed consolidated statement of operations for the three and six months ended June 30, 2017. The tax effect of each component of other comprehensive income was immaterial for the three and six months ended June 30, 2017.

Investment, at cost

In February 2013, Illumina, Inc. acquired Verinata Health, Inc. (Verinata), a privately-held company, for \$350 million in cash and up to an additional \$100 million in milestone payments through December 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. During the third quarter of 2014, we received cash proceeds of \$0.3 million from the escrow account related to the acquisition. We recorded these amounts as "Gain from sale of investment in Verinata" in the consolidated statements of operations for the year ended December 31, 2014. The final milestones related to the sale of Verinata to Illumina were met in December 2015 and, accordingly, we recorded our share of these milestone payment obligations in the amount of \$2.3 million in Gain from sale of investment in Verinata in the consolidated statement of operations for the year ended December 31, 2015. In January 2016, we received the payment of \$2.3 million and it was recorded in net cash provided by investing activities in the condensed consolidated statement of cash flows.

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 value. If the fair value of our reporting unit exceeds its carrying value, goodwill is not considered impaired and no further analysis is required. If the carrying value of the reporting unit exceeds its fair value, 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 its implied fair value, then an impairment loss equal to the difference would be recorded.

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FLUIDIGM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

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 Changes and Accounting Pronouncements

Adoption of New Accounting Guidance

In July 2015, the FASB issued ASU 2015-11 Inventory (Topic 330): Simplifying the Measurement of Inventory, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost or net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this standard in the first quarter of 2017. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for share-based payments, including changing the threshold to qualify for equity classification up to the employees' maximum statutory tax rates, allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, and clarifying the classification on the statement of cash flows of employee taxes paid when an employer withholds shares for tax-withholding purposes. We adopted this standard in the first quarter of 2017 by recording the cumulative impact of applying this guidance to retained earnings. We also elected to account for forfeitures as they occur, as permitted by ASU 2016-09. The adoption of this ASU did not have a material impact on our consolidated financial statements. See Note 9 for the impact on deferred tax assets.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 regarding ASC (Topic 606) Revenue from Contracts with Customers. ASU 2014-09 provides principles for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2016-12 provides narrow scope improvements and practical expedients related to ASU 2014-09. The improvements address completed contracts and contract modifications at transition, non-cash consideration, the presentation of sales taxes and other taxes collected from customers, and assessment of collectability when determining whether a transaction represents a valid contract. On July 7, 2015, the FASB amended ASU 2014-09 to defer the effective date by one year with early adoption permitted as of the original effective date. ASU 2014-09 and ASU 2016-12 will be effective for our fiscal year beginning January 1, 2018, with early adoption permitted. While we have not completed our assessment of the new revenue recognition standard, we currently expect that this new standard will not have a material impact on our consolidated financial statements. We currently expect to adopt ASU 2014-09 in the first quarter of 2018 using the modified retrospective method. We will continue to monitor additional modifications, clarifications or interpretations undertaken by the FASB that may impact our current conclusions.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This ASU requires lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases with the exception of short-term leases. For lessees, leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting is similar to the current model but updated to align with certain changes to the lessee model. Lessors will continue to classify leases as operating, direct financing or sales-type leases. ASU 2016-02 will be effective for our fiscal year beginning January 1, 2019 and early adoption is permitted. We are currently evaluating the accounting, transition, and disclosure requirements of the standard. We have not yet determined whether we will elect early adoption of the standard and cannot currently estimate the financial statement impact of adoption.

In November 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force, amending the presentation of restricted cash within the statement of cash flows. The new guidance requires that restricted cash be included within cash and cash equivalents on the statement of cash flows. ASU 2016-18 will be effective for our fiscal year beginning January 1, 2018, with early adoption permitted. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

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FLUIDIGM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance intends to simplify the subsequent measurement of goodwill. The ASU eliminates the requirement for an entity to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an entity will perform its annual, or interim, goodwill impairment testing by comparing the fair value of a reporting unit with its carrying amount and recording an impairment charge for the amount by which the carrying amount exceeds the fair value. The ASU will be effective for annual and interim goodwill impairment testing performed for our fiscal year beginning January 1, 2020, with early adoption permitted. We are currently evaluating the adoption of this ASU and cannot estimate the financial statement impact of adoption.

There have been no other changes in accounting standards issued by the FASB during the three and six months ended June 30, 2017 that are expected to have a material impact on our 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 accrue interest at a rate of 2.75% per year, payable semi-annually in arrears on February 1 and August 1 of each year. 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.

In February 2014, 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. The underwriting discount of \$6.0 million and the debt issuance costs of \$1.1 million were recorded as offsets to the proceeds.

In February 2014, we used \$113.2 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.). Interest expense related to the Notes was approximately \$1.5 million for both the three months ended June 30, 2017 and 2016, respectively. Interest expense related to the Notes was \$2.9 million approximately for both the six months ended June 30, 2017 and 2016, respectively. Approximately \$2.8 million of interest under the Notes became due and was paid during each of the six months ended June 30, 2017 and 2016, respectively.

The carrying values of the components of the Notes are as follows (in thousands):

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	June 30, 2017	December 31, 2016
Principal amount of Notes	\$201,250	\$201,250
Unamortized debt discount	(5,209)	(5,330)
Unamortized debt issuance cost	(947)	(969)
Net carrying value of convertible notes	\$195,094	\$194,951

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

(Unaudited)

4. Intangible Assets, net

Intangible assets include developed technology as a result of the DVS acquisition and other intangible assets included in Other non-current assets. Intangible assets, net were as follows (in thousands):

	June 30, 2017			
	Gross Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Developed technology	\$ 112,000	\$(37,800)	\$ 74,200	10.0 years
Patents and licenses	11,274	(5,124)	6,150	7.9 years
Total intangible assets, net	\$ 123,274	\$(42,924)	\$ 80,350	

	December 31, 2016			
	Gross Amount	Accumulated Amortization	Net	Weighted-Average Amortization Period
Developed technology	\$ 112,000	\$(32,200)	\$ 79,800	10.0 years
Patents and licenses	11,224	(4,533)	6,691	7.9 years
Total intangible assets, net	\$ 123,224	\$(36,733)	\$ 86,491	

In connection with the acquisition of DVS in February 2014, we acquired developed technology with a gross fair value of \$112.0 million. These acquired intangible assets are being amortized to cost of product revenue over their useful life of ten years. Related amortization for the three and six months ended June 30, 2017 was \$2.8 million and \$5.6 million, respectively. Related amortization expense for the three and six months ended June 30, 2016 was \$2.8 million and \$5.6 million, respectively.

Based on the carrying value of intangible assets as of June 30, 2017, the annual amortization expense for intangible assets is expected to be as follows (in thousands):

Fiscal Year	Amortization Expense
2017 (remainder of the year)	\$ 6,200
2018	12,333
2019	12,242
2020	12,242
2021	12,087
Thereafter	25,246
	\$ 80,350

5. Balance Sheet Details**Inventories**

Inventories consist of the following (in thousands):

	June 30, 2017	December 31, 2016
Raw materials	\$8,421	\$8,919
Work-in-process	1,590	1,742

Finished goods	8,754	9,453
Total inventories, net \$	18,765	\$20,114

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

(Unaudited)

Property and Equipment, net

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

	June 30, 2017	December 31, 2016
Computer equipment and software	\$5,779	\$5,497
Laboratory and manufacturing equipment	24,402	23,670
Leasehold improvements	8,940	8,747
Office furniture and fixtures	2,150	2,084
Property and equipment, gross	41,271	39,998
Less accumulated depreciation and amortization	(27,420)	(24,084)
Construction-in-progress	115	611
Property and equipment, net	\$13,966	\$16,525

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 six months ended June 30, 2017 and 2016, which is included in other accrued liabilities, is summarized below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Beginning balance	\$864	\$1,056	\$1,023	\$1,076
Accrual for current period warranties	19	163	187	288
Warranty costs incurred	(177)	(173)	(504)	(318)
Ending balance	\$706	\$1,046	\$706	\$1,046

6. Fair Value of Financial Instruments

The following tables summarize our cash and available-for-sale securities by significant category within the fair value hierarchy (in thousands):

	June 30, 2017					
	Carrying Amount	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities
Assets:						
Cash	\$15,411	\$ —	\$ —	\$15,411	\$15,411	\$ —
Available-for-sale:						
Level I:						
Money market funds	12,388	—	—	12,388	12,388	—
Level II:						
U.S. government and agency securities	14,232	1	(1)	14,232	11,798	2,434
Total	\$42,031	\$ 1	\$ (1)	\$42,031	\$39,597	\$ 2,434

Table of Contents**FLUIDIGM CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(Unaudited)**

	December 31, 2016					
	Carrying Amount	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities
Assets:						
Cash	\$ 13,984	\$ —	\$ —	\$ 13,984	\$ 13,984	\$ —
Available-for-sale:						
Level I:						
Money market funds	21,061	—	—	21,061	21,061	—
Level II:						
U.S. government and agency securities	24,388	1	(4)	24,385	—	24,385
Total	\$59,433	\$ 1	\$ (4)	\$59,430	\$ 35,045	\$ 24,385

There were no transfers between Level I and Level II measurements during the six months ended June 30, 2017 and 2016, and there were no changes in the valuation techniques used.

The contractual maturity periods of \$2.4 million of our marketable debt securities are within one year from June 30, 2017.

None of our available-for-sale securities have been in a continuous loss position for more than 12 months. We concluded that the declines in market value of our available-for-sale securities investment portfolio were temporary in nature and did not consider any of our investments to be other-than-temporarily impaired.

The estimated fair value of the Convertible Notes is based on a market approach (See Note 3). The estimated fair value was approximately \$125.0 million and \$139.7 million (par value \$201.3 million) as of June 30, 2017 and December 31, 2016, and represents a Level II valuation. When determining the estimated fair value of our long-term debt, we used a commonly accepted valuation methodology and market-based risk measurements that are indirectly observable, such as credit risk.

7. Commitments and Contingencies**Operating Leases**

We have entered into various long-term non-cancelable operating lease agreements for equipment and facilities expiring at various times through 2026. We leased office space under non-cancelable leases in the United States, Canada, Singapore, Japan, China, France and United Kingdom, with various expiration dates through March 2026. Certain facility leases also contain rent escalation clauses. Our lease payments are expensed on a straight-line basis over the life of the leases. Rental expense under operating leases, net of amortization of lease incentives and sublease income for the three and six months ended June 30, 2017 was \$1.0 million and \$2.6 million, respectively. Rental expense under operating leases, net of amortization of lease incentive and sublease income for the three and six months ended June 30, 2016 was \$1.8 million and \$3.3 million, respectively.

Future minimum lease payments and minimum sublease income under non-cancelable operating leases as of June 30, 2017 are as follows (in thousands):

Fiscal Year

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	Minimum Lease Payments	Minimum Sublease Income
2017 (remainder of the year)	\$2,374	\$(532)
2018	4,507	(740)
2019	4,532	(523)
2020	2,307	(181)
2021	1,233	—
Thereafter	2,701	—
Total	\$17,654	\$(1,976)

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FLUIDIGM CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Indemnifications

From time to time, we have entered into indemnification provisions under certain of our agreements in the ordinary course of business, typically with business partners, customers, and suppliers. Pursuant to these agreements, we may indemnify, hold harmless, and agree to reimburse the indemnified parties on a case-by-case basis for losses suffered or incurred by the indemnified parties in connection with any patent or other intellectual property infringement claim by any third party with respect to our products. The term of these indemnification provisions is generally perpetual from the time of the execution of the agreement. The maximum potential amount of future payments we could be required to make under these indemnification provisions is typically not limited to a specific amount. In addition, we have entered into indemnification agreements with our officers, directors, and certain other employees. With certain exceptions, these agreements provide for indemnification for related expenses including, among others, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding.

Since October 2015, we have been incurring legal expenses to defend claims by Thermo Fisher Scientific, Inc., (Thermo) against one of our employees. On December 21, 2015, Thermo filed a complaint in the Circuit Court for the County of Kalamazoo, Michigan against one of its former employees who had recently been hired by us alleging, among other claims, misappropriation of proprietary information and breach of contractual and fiduciary obligations to Thermo while still an employee of Thermo. On November 23, 2016, Thermo amended its complaint to add us as a party to the litigation, making various commercial and employment-related claims and seeking damages and injunctive relief. In July 2017, we entered into a settlement agreement with Thermo. Pursuant to the terms of the settlement agreement, we agreed to pay Thermo a one-time payment of \$3.0 million in exchange for a release and dismissal of all claims with prejudice upon payment of the settlement. As a result of this settlement, in the second quarter of 2017, we accrued an additional \$1.0 million of legal expense. This results in an accrued amount of \$2.0 million as of June 30, 2017, net of a \$1.0 million insurance recovery receivable related to this matter.

Contingencies

From time to time, we may be subject to various legal proceedings and claims arising in the ordinary course of business. These include disputes and lawsuits related to intellectual property, mergers and acquisitions, licensing, contract law, tax, regulatory, distribution arrangements, employee relations and other matters. Periodically, we review the status of each matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and a range of possible losses can be estimated, we accrue a liability for the estimated loss. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we continue to reassess the potential liability related to pending claims and litigation and we may revise estimates.

8. Stock-Based Compensation

During the three and six months ended June 30, 2017, we granted certain employees options to purchase 44,500 and 764,313 shares of common stock, respectively. The options granted during the three months ended June 30, 2017 had exercise prices ranging from \$4.94 to \$5.87 and a total grant date fair value of \$0.2 million. The options granted during the six months ended June 30, 2017 had exercise prices ranging from \$4.94 to \$6.78 and a total grant date fair value of \$4.7 million.

During the three and six months ended June 30, 2017, we granted certain employees 53,380 and 584,790 restricted stock units. The restricted stock units granted during the three months ended June 30, 2017 had fair market values ranging from \$4.94 to \$5.87 and a total grant date fair value of \$0.3 million. The restricted stock units granted during the six months ended June 30, 2017 had a fair market value ranging from \$4.94 and \$6.78 and a total grant date fair value of \$3.7 million.

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 \$2.3 million and \$4.8 million during the three and six months ended June 30, 2017, respectively. We recognized stock-based compensation expense of \$3.7 million and \$7.4 million during the three and six months ended June 30, 2016, respectively. As of June 30, 2017, we had \$5.1 million and \$11.4 million of unrecognized stock-based compensation expense related to stock options and restricted stock units, respectively, which are expected to be recognized over a weighted average period of 2.7 years and 2.5 years, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

In 2016, we granted 184,050 and 87,620 performance-based stock options and performance-based restricted stock units (each, a “performance award”), respectively, to executive officers and employees, which were accounted for as equity awards. The number of performance awards that ultimately vest depends on the achievement of certain performance criteria set by the Compensation Committee of the Company’s Board of Directors. The performance-based stock options have an exercise price per share of \$7.10. We recognize stock-based compensation expense over the vesting period of the performance awards when achievement of the performance criteria becomes probable. We did not recognize any expense related to these performance awards in 2017 and 2016.

9. Income Taxes

The 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 deferred tax assets, which primarily consist of net operating loss carryforwards.

We recorded a tax benefit of \$0.8 million and \$2.6 million for the three and six months ended June 30, 2017, respectively, which was primarily attributable to the amortization of our acquisition-related deferred tax liability and net operating loss from Canadian operations, partially offset by a tax provision and discrete items from our foreign operations. We recorded a tax benefit of \$1.0 million and \$1.8 million for the three and six months ended June 30, 2016, respectively, which was primarily attributable to the amortization of our acquisition-related deferred tax liability, partially offset by a tax provision and discrete items from our foreign operations.

Upon adoption of ASU 2016-09 (see Note 2), we recorded to the opening balance of retained earnings \$9.3 million in deferred tax assets for previously unrecognized excess tax benefits that existed as of January 1, 2017, and a corresponding increase of \$9.3 million in valuation allowances against these deferred tax assets as substantially all of our U.S. deferred tax assets, net of deferred tax liabilities, were subject to a full valuation allowance. The net impact to retained earnings was zero as a result of these adjustments.

Recording deferred tax assets is appropriate when realization of these assets is more likely than not. Assessing the realizability of deferred tax assets is dependent upon several factors including historical financial results. The deferred tax assets have been substantially offset by a valuation allowance because we have incurred net losses since our inception. We continue to evaluate the realizability of the deferred tax assets and related valuation allowance.

10. Information about Geographic Areas

We operate in one reporting segment, which is the development, manufacturing, and commercialization of life science tools. Our chief executive officer manages our operations and evaluates our financial performance on a consolidated basis. For purposes of allocating resources and evaluating regional financial performance, our chief executive officer reviews separate sales information for the different regions of the world. Our general and administrative expenses and our research and development expenses are not allocated to any specific region. Most of our principal operations, other than manufacturing, and our decision-making functions are located at our corporate headquarters in the United States.

The following table presents the total revenue by geographic area of our customers for each period presented (in thousands):

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
United States	\$ 11,674	\$ 13,839	\$ 23,505	\$ 27,013
Europe	7,748	8,461	15,384	17,786
Asia-Pacific	3,866	3,983	8,853	9,991
Other	624	1,885	1,703	2,381
Total revenue	\$ 23,912	\$ 28,168	\$ 49,445	\$ 57,171

No individual customer represented more than 10% of our total revenues for the three and six months ended June 30, 2017 and 2016.

Revenue from sales to customers in China represented 12% of our total revenue, or \$2.8 million, and 11% of our total revenue, or \$5.2 million for the three and six months ended June 30, 2017, respectively. Revenue from sales to customers in the United Kingdom represented 12% of our total revenues, or \$3.0 million for the three months ended June 30, 2017. Revenue from sales to customers in China represented 10% of our total revenue, or \$2.8 million, and 11% of our total revenue, or \$6.1 million for the three and six months ended June 30, 2016, respectively.

Revenue from sales to customers in the United Kingdom was less than 10% of our total revenue for the six months ended June 30, 2017 as well as for the three and six months ended June 30, 2016. Except for China and United Kingdom, no other foreign location accounted for sales in excess of 10% of our total revenue during the three and six months ended June 30, 2017 and 2016.

11. Subsequent Events

Tax Benefit Preservation Plan

On August 1, 2017, the Tax Benefit Preservation Plan (Tax Plan) dated as of November 21, 2016 expired and all of the preferred share purchase rights distributed to the holders of our common stock pursuant to the Tax Plan expired.

2017 Employee Stock Purchase Plan

We held our 2017 annual meeting of stockholders on August 1, 2017 (Annual Meeting). At the Annual Meeting, our stockholders approved the 2017 Employee Stock Purchase Plan (ESPP). A total of 1,000,000 shares of our common stock is reserved for issuance under the ESPP. Unless the administrator determines otherwise, each offering period under our ESPP has a duration of approximately six months during which an option granted pursuant to the ESPP may be exercised, (i) commencing on the first trading day on or after May 31 and November 30 of each year and terminating on or after May 31 and November 30, approximately six months later. The purchase price at which shares are sold under the ESPP is 85% of the lower of the fair market value of a share of our common stock on (1) the first day of the offering period, or (2) the last day of the offering period.

At-The-Market Offering

On August 3, 2017, we entered into a Sales Agreement with Cowen and Company, LLC (Cowen) to sell shares of our common stock having aggregate sales proceeds of up to \$30 million, from time to time, through an “at the market” equity offering program under which Cowen will act as sales agent. Under the Sales Agreement, we set the parameters for the sale of shares, including the number of shares to be issued, the time period during which sales are requested to be made, limitation on the number of shares that may be sold in any one trading day and any minimum price below which sales may not be made. Subject to the terms and conditions of the Sales Agreement, Cowen may sell the shares by methods deemed to be an “at-the-market” offering as defined in Rule 415 promulgated under the Securities Act of 1933, as amended, including sales made (i) directly on The NASDAQ Global Select Market, (ii) on any other existing trading market for the common stock or (iii) to or through a market maker. Cowen will use commercially reasonable efforts in conducting such sales activities consistent with its normal trading and sales practices, applicable state and federal laws, rules and regulations and the rules of The NASDAQ Global Select Market. The Sales Agreement may be terminated by us upon five days’ notice to Cowen for any reason or by Cowen upon five days’ notice to us for any reason or immediately under certain circumstances, including but not limited to the occurrence of a material adverse change in the Company. Under the terms of the Sales Agreement, we may also sell shares to Cowen acting as principal for Cowen’s own account at prices agreed upon at the time of sale.

The Sales Agreement provides that Cowen will be entitled to compensation for its services that will not exceed, but may be lower than, 3% of the gross sales price per share of all shares sold through Cowen under the Sales Agreement. We have no obligation to sell any shares under the Sales Agreement, and may at any time suspend solicitation and

offers under the Sales Agreement.

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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, cost of product revenue and product margin, operating and other expenses, unit sales and the selling prices of our products, business strategies, financing plans, expansion of our business, competitive position, industry environment, potential growth opportunities, market growth expectations, 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,” “should,” “will,” “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, “Access Array,” “Advanta,” “Biomark,” “C1,” “Callisto,” “Cell-ID,” “CyTOF,” “D3,” “Delta Gene,” “Digital Array,” “Dynamic Array,” “EPI,” “FC1,” “Flex Six,” “Helios,” “High-Precision 96.96 Genotyping,” “Juno,” “Maxpar,” “MSL,” “Nanoflex” “Open App,” “Polaris,” “qdPCR 37K,” “Script Builder,” “Script Hub,” “Singular,” “SNP Trace” and “SNP Type” are trademarks or 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 create, manufacture, and market innovative technologies and tools for life sciences research. We sell instruments and consumables, including integrated fluidic circuits, or IFCs, assays and reagents, to academic institutions, clinical research laboratories, and biopharmaceutical, biotechnology, and agricultural biotechnology, or Ag-Bio, companies and contract research organizations, or CROs. Our technologies and tools are directed at the analysis of deoxyribonucleic acid, or DNA, ribonucleic acid, or RNA, and proteins in a variety of different sample types, from individual cells to bulk tissue.

We were a pioneer in the application of microfluidics to enable high-throughput and highly-multiplexed polymerase chain reactions, or PCR, for genetic analysis, as well as a field known as single-cell genomics, in which the genetic composition of individual cells is assayed. In February 2014, we purchased DVS Sciences, Inc., whose mass cytometry system enables the highly-multiplexed analysis of cellular surface and intracellular proteins in both blood and tissue.

Researchers have successfully employed our products to help achieve breakthroughs in a variety of fields, including single-cell gene and protein expression, gene regulation, genetic variation, cellular function and applied genetics. These breakthroughs include using our systems to help detect life-threatening mutations in cancer cells, discover cancer associated biomarkers, analyze the genetic composition of individual stem cells and assess the quality of agricultural products, such as seeds or livestock.

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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 located in Singapore, Canada and South San Francisco, California. Our facility in Singapore manufactures our genomics 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 mass cytometry instruments for commercial sale, as well as for internal research and development purposes, are manufactured at our facility in Canada. We also manufacture assays and reagents at our facilities in the United States.

Our total revenue for the six months ended June 30, 2017 was \$49.4 million. Our total revenue was \$104.4 million in 2016, \$114.7 million in 2015, and \$116.5 million in 2014. We have incurred significant net losses since our inception in 1999 and, as of June 30, 2017, our accumulated deficit was \$473.8 million.

At the end of 2016, we began reallocating our resources based on revenue contribution and growth expectations across our target markets, including a reorganization of our sales team and commercial leadership. As part of this shift and due to our negative revenue growth in 2016 and 2015, we implemented certain operational efficiency and cost-savings initiatives beginning in the first quarter of 2017 intended to align our resources with our product strategy, reduce our operating expenses, and manage our cash flows. These cost efficiency initiatives include targeted workforce reductions, optimizing our facilities, and reducing excess space. In addition, we may need to decrease or defer capital expenditures and development activities to further optimize our operations. Such measures may impair our ability to invest in developing, marketing and selling new and existing products. The efficiency and cost-savings initiatives are expected to reduce operating expenses and enable us to efficiently align our resources in areas providing the greatest benefit, but if our efficiency and cost reduction efforts are unsuccessful, our cash position could be negatively impacted and we may, among other things, be required to seek other sources of financing.

Recent Developments

On August 3, 2017, we entered into a sales agreement with Cowen and Company, LLC, or Cowen, in connection with our “at the market” equity offering program.

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 three and six months ended June 30, 2017 compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on March 3, 2017.

Recent Accounting Pronouncements

See Note 2 — “Summary of Significant Accounting Policies” in the notes to our condensed consolidated financial statements.

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Results of Operations

The following table presents our historical condensed consolidated statements of operations data for the three and six months ended June 30, 2017 and 2016, and as a percentage of total revenue for the respective periods (in thousands):