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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, 2022

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: 001-37478

NATERA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**01-0894487**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
13011 McCallen Pass Building A Suite 100 Austin, TX **(Address of Principal Executive Offices)**	**78753** **(Zip Code)**

(650) 249-9090
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	NTRA	The Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	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 August 1, 2022, the number of outstanding shares of the registrant's common stock, par value $0.0001 per share, was 96,957,360.

Natera, Inc.

FORM 10-Q FOR THE QUARTER ENDED June 30, 2022

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. The forward-looking statements are contained principally in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," but are also contained elsewhere in this report. Forward-looking statements include information concerning our future results of operations and financial position, strategy and plans, and our expectations for future operations. Forward-looking statements include all statements that are not historical facts and, in some cases, can be identified by terms such as "believe," "may," "will," "estimate," "continue," "anticipate," "design," "intend," "expect," "could," "plan," "potential," "predict," "seek," "should," "would" or the negative version of these words and similar expressions.

These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectation that, for the foreseeable future, a significant portion of our revenues will be derived from sales of Panorama and Horizon;
- our ability to increase demand for Panorama and Horizon;
- our expectation that Panorama will be adopted for broader use in average-risk pregnancies and for the screening of microdeletions and that third-party payer reimbursement will be available for these applications, including our expectations that the results from our single nucleotide polymorphism-based Microdeletion and Aneuploidy RegisTry, or SMART, Study may support broader use and reimbursement for the use of Panorama in average risk pregnancies and for microdeletions;
- the extent and duration of the impact of the COVID-19 pandemic on our business, results of operations, stock price, or overall financial condition;
- our expectations of the reliability, accuracy, and performance of our tests, as well as expectations of the benefits of our tests to patients, providers, and payers;
- our ability to successfully develop additional revenue opportunities and expand our product offerings to include new tests;
- our efforts to successfully develop and commercialize our oncology and organ health products;
- the effect of improvements in our cost of goods sold;
- our estimates of the total addressable markets for our current and potential product offerings;
- our ability and expectations regarding obtaining, maintaining and expanding third-party payer coverage of, and reimbursement for, our tests;
- the effect of changes in the way we account for our revenue;
- the scope of protection we establish and maintain for, and developments or disputes concerning, our intellectual property or other proprietary rights;
- our ability to successfully compete in the markets we serve;
- our reliance on collaborators such as medical institutions, contract laboratories, laboratory partners, and other third parties;
- our ability to operate our laboratory facility and meet expected demand, and to successfully scale our operations;
- our reliance on a limited number of suppliers, including sole source suppliers, which may impact our ability to maintain a continued supply of laboratory instruments and materials and to run our tests;
- our expectations of the rate of adoption of Panorama, Horizon and of any of our other current or future tests by laboratories, clinics, clinicians, payers, and patients;
- our ability to complete clinical studies and publish compelling clinical data in peer-reviewed medical publications regarding Panorama and any of our future tests, and the effect of such data or publications on professional society or practice guidelines or coverage and reimbursement determinations from third-party payers, including our SMART and CIRCULATE-Japan studies and our ongoing and planned trials in oncology and transplant rejection;
- our reliance on our partners to market and offer our tests in the United States and in international markets;
- our expectations regarding acquisitions, dispositions and other strategic transactions;
- our expectations regarding the conversion of our outstanding 2.25% convertible senior notes due 2027 in the aggregate principal amount of $287.5 million and our ability to make debt service payments under the Convertible Notes if such Convertible Notes are not converted;
- our ability to control our operating expenses and fund our working capital requirements;

- the factors that may impact our financial results;
- anticipated trends and challenges in our business and the markets in which we operate; and
- our ability to comply with federal, state, and foreign regulatory requirements, programs and policies and to successfully operate our business in response to changes in such requirements, programs and policies.

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, including those discussed in Part II, Item 1A, "Risk Factors" in this report and Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission on February 25, 2022. Given these uncertainties, you should not place undue reliance on these forward-looking statements. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified time frame, or at all. You should read this report completely and with the understanding that our actual future results may be materially different from what we expect.

Also, forward-looking statements represent our beliefs and assumptions only as of the date of this report. Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Except as required by law, we disclaim any obligation to update these forward-looking statements publicly, 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.

As used in this quarterly report on Form 10-Q, the terms "Natera," "Registrant," "Company," "we," "us," and "our" mean Natera, Inc. and its subsidiaries unless the context indicates otherwise.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Natera, Inc.

Condensed Consolidated Balance Sheets

(in thousands except par value and per share amounts)

	June 30, 2022 (Unaudited)	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 91,298	$ 84,386
Restricted cash	86	228
Short-term investments	547,353	829,896
Accounts receivable, net of allowance of $3,561 in 2022 and $2,429 in 2021	208,312	122,074
Inventory	30,465	26,909
Prepaid expenses and other current assets, net	24,041	29,645
Total current assets	901,555	1,093,138
Property and equipment, net	81,772	65,516
Operating lease right-of-use assets	62,147	59,013
Other assets	21,502	18,820
Total assets	$ 1,066,976	$ 1,236,487
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 28,192	$ 27,206
Accrued compensation	32,959	40,941
Other accrued liabilities	124,372	93,353
Deferred revenue, current portion	16,009	7,404
Short-term debt financing	50,086	50,052
Total current liabilities	251,618	218,956
Long-term debt financing	281,020	280,394
Deferred revenue, long-term portion	20,721	21,318
Operating lease liabilities, long-term portion	65,417	61,036
Other long-term liabilities	3,618	1,479
Total liabilities	622,394	583,183
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, $0.0001 par value: 750,000 shares authorized at both June 30, 2022 and December 31, 2021, respectively; 96,903 and 95,140 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively	10	10
Additional paid in capital	2,139,551	2,050,417
Accumulated deficit	(1,678,582)	(1,394,836)
Accumulated other comprehensive loss	(16,397)	(2,287)
Total stockholders' equity	444,582	653,304
Total liabilities and stockholders' equity	$ 1,066,976	$ 1,236,487

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Natera, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(in thousands, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenues				
Product revenues	$ 194,582	$ 139,647	$ 384,584	$ 260,031
Licensing and other revenues	3,618	2,379	7,749	34,311
Total revenues	198,200	142,026	392,333	294,342
Cost and expenses				
Cost of product revenues	108,756	75,527	211,426	141,359
Cost of licensing and other revenues	481	585	1,026	1,566
Research and development	82,580	53,752	162,994	93,940
Selling, general and administrative	149,468	127,456	297,102	235,788
Total cost and expenses	341,285	257,320	672,548	472,653
Loss from operations	(143,085)	(115,294)	(280,215)	(178,311)
Interest expense	(2,150)	(2,075)	(4,237)	(4,148)
Interest and other income, net	277	1,585	1,078	2,956
Loss before income taxes	(144,958)	(115,784)	(283,374)	(179,503)
Income tax expense	(193)	(242)	(372)	(376)
Net loss	$ (145,151)	$ (116,026)	$ (283,746)	$ (179,879)
Unrealized loss on available-for-sale securities, net of tax	(2,493)	(756)	(14,110)	(1,818)
Comprehensive loss	$ (147,644)	$ (116,782)	$ (297,856)	$ (181,697)
Net loss per share (Note 12):				
Basic and diluted	$ (1.50)	$ (1.32)	$ (2.95)	$ (2.06)
Weighted-average number of shares used in computing basic and diluted net loss per share:				
Basic and diluted	96,579	88,077	96,081	87,387

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Natera, Inc.
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(in thousands)

Three months ended June 30, 2021

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance as of March 31, 2021	87,430	$ 9	$ 1,356,212	$ 3,197	$ (986,973)	$ 372,445
Issuance of common stock upon exercise of stock options	207	—	2,259	—	—	2,259
Issuance of common stock under employee stock purchase plan	106	—	6,085	—	—	6,085
Vesting of restricted stock units	755	—	—	—	—	—
Stock-based compensation	—	—	35,103	—	—	35,103
Unrealized loss on available-for sale securities	—	—	—	(756)	—	(756)
Net loss	—	—	—	—	(116,026)	(116,026)
Balance as of June 30, 2021	88,498	$ 9	$ 1,399,659	$ 2,441	$ (1,102,999)	$ 299,110

Six months ended June 30, 2021

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balance as of December 31, 2021	86,223	$ 9	$ 1,411,286	$ 4,259	$ (929,318)	$ 486,236
Issuance of common stock upon exercise of stock options	782	—	6,829	—	—	6,829
Issuance of common stock under employee stock purchase plan	106	—	6,085	—	—	6,085
Vesting of restricted stock	1,387	—	—	—	—	—
Stock-based compensation	—	—	58,335	—	—	58,335
Unrealized gain on available-for sale securities	—	—	—	(1,818)	—	(1,818)
Cumulative-effect adjustment upon adoption of ASU 2016-13	—	—	(82,876)	—	6,198	(76,678)
Net loss	—	—	—	—	(179,879)	(179,879)
Balance as of June 30, 2021	88,498	$ 9	$ 1,399,659	$ 2,441	$ (1,102,999)	$ 299,110

	Three months ended June 30, 2022					
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance as of March 31, 2022	96,259	$ 10	$ 2,089,660	$ (13,904)	$ (1,533,431)	$ 542,335
Issuance of common stock upon exercise of stock options	70	—	422	—	—	422
Issuance of common stock under employee stock purchase plan	285	—	8,496	—	—	8,496
Vesting of restricted stock units	289	—	—	—	—	—
Stock-based compensation	—	—	40,973	—	—	40,973
Unrealized loss on available-for sale securities	—	—	—	(2,493)	—	(2,493)
Net loss	—	—	—	—	(145,151)	(145,151)
Balance as of June 30, 2022	96,903	$ 10	$ 2,139,551	$ (16,397)	$ (1,678,582)	$ 444,582

	Six months ended June 30, 2022					
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance as of December 31, 2021	95,140	$ 10	$ 2,050,417	$ (2,287)	$ (1,394,836)	$ 653,304
Issuance of common stock upon exercise of stock options	701	—	4,578	—	—	4,578
Issuance of common stock under employee stock purchase plan	285	—	8,496	—	—	8,496
Vesting of restricted stock	777	—	—	—	—	—
Stock-based compensation	—	—	76,060	—	—	76,060
Unrealized loss on available-for sale securities	—	—	—	(14,110)	—	(14,110)
Net loss	—	—	—	—	(283,746)	(283,746)
Balance as of June 30, 2022	96,903	$ 10	$ 2,139,551	$ (16,397)	$ (1,678,582)	$ 444,582

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Natera, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2022	**2021**
	(in thousands)	
Operating activities		
Net loss	$ (283,746)	$ (179,879)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,631	5,262
Premium amortization and discount accretion on investment securities	2,960	3,790
Stock-based compensation	76,060	58,335
Non-cash lease expense	6,652	5,357
Amortization of debt discount and issuance cost	625	610
Inventory reserve adjustments	181	612
Other non-cash benefits	39	117
Provision for credit losses	1,501	63
(Gain) loss on investments	203	(35)
Changes in operating assets and liabilities:		
Accounts receivable	(87,738)	(21,628)
Inventory	(3,737)	(8,991)
Prepaid expenses and other assets	4,727	(2,497)
Accounts payable	2,492	12,313
Accrued compensation	(7,982)	471
Operating lease liabilities	(5,528)	(4,992)
Other accrued liabilities	29,525	24,374
Deferred revenue	8,009	(38,721)
Cash used in operating activities	(248,126)	(145,439)
Investing activities		
Purchases of investments	(79,956)	(71,054)
Proceeds from sale of investments	191,939	31,144
Proceeds from maturity of investments	153,500	205,510
Purchases of property and equipment, net	(23,661)	(18,891)
Cash provided by investing activities	241,822	146,709
Financing activities		
Proceeds from exercise of stock options	4,578	6,829
Proceeds from issuance of common stock under employee stock purchase plan	8,496	6,085
Cash provided by financing activities	13,074	12,914
Net increase in cash, cash equivalents and restricted cash	6,770	14,184
Cash, cash equivalents and restricted cash, beginning of period	84,614	48,855
Cash, cash equivalents and restricted cash, end of period	$ 91,384	$ 63,039
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,612	$ 3,538
Non-cash investing and financing activities:		
Purchases of property and equipment in accounts payable and accruals	$ 2,035	$ 4,688

See accompanying notes to the unaudited interim condensed consolidated financial statements.

Natera, Inc.
Notes to Unaudited Interim Condensed Consolidated Financial Statements

1. Description of Business

Natera, Inc. (the "Company") was formed in the state of California as Gene Security Network, LLC in November 2003 and incorporated in the state of Delaware in January 2007. The Company is a diagnostics company with proprietary molecular and bioinformatics technology that it is applying to change the management of disease worldwide. The Company's cell-free DNA ("cfDNA") technology combines its novel molecular assays, which reliably measure many informative regions across the genome from samples as small as a single cell, with its statistical algorithms which incorporate data available from the broader scientific community to identify genetic variations covering a wide range of serious conditions with high accuracy and coverage. The Company's technology has been proven clinically and commercially in the women's health space, in which it develops and commercializes non- or minimally-invasive tests to evaluate risk for, and thereby enable early detection of, a wide range of genetic conditions, such as Down syndrome. The Company is now translating its success in women's health and applying its core technology to the oncology market, in which it is commercializing a personalized blood-based DNA test to detect molecular residual disease and monitor disease recurrence, as well as to the organ health market, initially with a test to assess kidney transplants for rejection. The Company operates laboratories certified under the Clinical Laboratory Improvement Amendments ("CLIA") providing a host of cell-free DNA-based molecular testing services. The Company determines its operating segments based on the way it organizes its business to make operating decisions and assess performance. The Company operates one segment, the development and commercialization of molecular testing services, applying its proprietary technology in the fields of women's health, oncology and organ health. The Company has three subsidiaries.

The Company's product offerings include its Panorama Non-Invasive Prenatal Test ("NIPT") that screens for chromosomal abnormalities of a fetus as well as in twin pregnancies, typically with a blood draw from the mother; Vistara, a single-gene mutations screening test performed to identify single-gene disorders; Horizon Carrier Screening ("HCS") to determine carrier status for a large number of severe genetic diseases that could be passed on to the carrier's children; Spectrum Pre-implantation Genetics ("Spectrum") to evaluate embryos to identify chromosomal anomalies or inherited genetic conditions to improve the chances of a healthy pregnancy during an in vitro fertilization ("IVF") cycle; Anora Miscarriage Test ("Anora") to rapidly and extensively analyze fetal chromosomes to understand the cause of miscarriage; Non-Invasive Paternity Testing ("PAT"), which is exclusively marketed and sold by a licensee from whom the Company receives a royalty; Signatera, which detects circulating tumor DNA in patients previously diagnosed with cancer to assess molecular residual disease and monitor for recurrence; and Prospera, to assess organ transplant rejection. All testing is available principally in the United States. The Company also offers its Panorama test to customers outside of the United States, primarily in Europe. The Company also offers Constellation, a cloud-based software platform that enables laboratory customers to gain access through the cloud to the Company's algorithms and bioinformatics in order to validate and launch their own tests based on the Company's technology.

2. Summary of Significant Accounting Policies

During the six months ended June 30, 2022, there were no material changes to the Company's significant accounting policies as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (filed on February 25, 2022).

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information. The unaudited interim condensed consolidated financial information includes only adjustments of a normal recurring nature necessary for a fair presentation of the results of operations, financial position, changes in stockholders' equity, and cash flows. The results of operations for the six months ended June 30, 2022, are not necessarily indicative of the results for the full year or the results for any future periods. The condensed consolidated balance sheet as of December 31, 2021 has been derived from audited financial statements at that date. These financial statements should be read in conjunction with the

audited financial statements, and related notes for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K filed with the SEC on February 25, 2022.

Some items in the prior period financial statements were reclassified to conform to the current presentation.

Liquidity Matters

The Company has incurred net losses since its inception and anticipates net losses and negative operating cash flows for the near future. The Company had a net loss of $283.7 million for the six months ended June 30, 2022 and an accumulated deficit of $1.7 billion as of June 30, 2022. As of June 30, 2022, the Company had $91.4 million in cash, cash equivalents, and restricted cash, $547.4 million in marketable securities, $50.1 million of outstanding balance of the Credit Line (as defined in Note 10, *Debt*) including accrued interest, and $287.5 million outstanding principal balance of its 2.25% Convertible Senior Notes (the "Convertible Notes").

While the Company has introduced multiple products that are generating revenues, these revenues have not been sufficient to fund all operations. Accordingly, the Company has funded the portion of operating costs that exceeds revenues through a combination of equity issuances, debt issuances, and other financings.

The Company continues to develop and commercialize future products and invest in the growth of its business and, consequently, it will need to generate additional revenues to achieve future profitability and will need to raise additional equity or debt financing. If the Company raises additional funds by issuing equity securities, its stockholders will experience dilution. Additional debt financing, if available, may involve covenants restricting its operations or its ability to incur additional debt. Any additional debt financing or additional equity that the Company raises may contain terms that are not favorable to it or its stockholders and requires significant debt service payments, which diverts resources from other activities. Additional financing may not be available at all, or in amounts or on terms acceptable to the Company. If the Company is unable to obtain additional financing, it may be required to delay the development and commercialization of its products and significantly scale back its business and operations.

On September 10, 2021, the Company entered into an agreement with a third party for an asset acquisition where the acquired asset was in-process research and development primarily in exchange for an equity consideration payment. In addition, pursuant to the agreement, certain employees of the third party became employees of the Company. The third party was a biotechnology company focused on oncology. The total upfront acquisition consideration amounts to $35.6 million composed of the issuance of 276,346 shares of the Company's common stock with a fair value of $30.9 million, approximately $3.9 million of cash consideration, assumed net liabilities of $0.2 million, as well as $0.6 million of acquisition related legal and accounting costs directly attributable to the acquisition of the asset. The Company accounted for the transaction as an asset acquisition as substantially all of the estimated fair value of the gross assets acquired was concentrated in a single identified in-process research and development asset ("IPR&D") thus satisfying the requirements of the screen test in ASU 2017-01. The estimated fair value of the acquired workforce was not significant. The Company concluded the acquired IPR&D has no alternative-future use and accordingly expensed approximately $35.6 million, on the day the transaction closed as research and development expense, which is reflected in its consolidated statement of operations.

Further, additional consideration aggregating up to approximately $35.0 million may be paid in an estimated 269,547 of additional shares, consistent with the registration statement filed with the SEC on September 10, 2021, that are potentially issuable to legacy shareholders of this third party upon the achievement of defined milestones relating to product development, commercial launch and continued employment of certain selling shareholders, each of which will be revalued at each reporting date and amount of compensation expense will be adjusted accordingly. The Company assessed these milestones as probable as of June 30, 2022. As achievement of all milestones is contingent upon the continued employment of certain selling shareholders, the Company accounted for the consideration related to all of the milestones as compensation expenses and recognized these expenses ratably over the estimated performance period of 24 months, to approximately August 2023.

In July 2021, the Company completed an underwritten equity offering and sold 5,175,000 shares of its common stock at a price of $113 per share to the public. Before estimated offering expenses of $0.4 million, the Company received proceeds of approximately $551.2 million net of the underwriting discount.

Based on the Company's current business plan, the Company believes that its existing cash and marketable securities will be sufficient to meet its anticipated cash requirements for at least 12 months after August 4, 2022.

Principles of Consolidation

The accompanying condensed consolidated financial statements include all the accounts of the Company and its subsidiaries. The Company established a subsidiary that operates in the state of Texas to support the Company's laboratory and operational functions. The Company established a subsidiary that operates in Canada following the acquisition of the IPR&D asset, which includes a lease for the laboratory space located in Canada. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles ("GAAP") in the United States requires management to make estimates and assumptions about future events that affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Significant items subject to such estimates include the allowance for doubtful accounts, average selling price expected to be received from insurance payors, the operating right-of-use assets and the associated lease liabilities, the average useful life for property and equipment, deferred revenues associated with unsatisfied performance obligations, accrued liability for potential refund requests, stock-based compensation, the fair value of options, income tax uncertainties, and the expected consideration to be received from contracts with customers. These estimates and assumptions are based on management's best estimates and judgment. Management regularly evaluates its estimates and assumptions using historical experience and other factors, including contractual terms and statutory limits; however, actual results could differ from these estimates and could have an adverse effect on the Company's financial statements.

Revenue

The total consideration which the Company expects to be entitled to from patients and insurance carriers in exchange for the Company's products is a significant estimate determined by calculating the average selling price based on the contractual pricing agreed to with each insurance carrier for each test (CPT code) performed adjusted for variable consideration related to historical percent of cases allowed, historical percent of patient responsibility collected, and historical percent of contract price collected from insurance carriers. The Company uses the expected-value approach of estimating variable consideration. The Company also considers recent trends, past events not expected to recur, and future known changes such as anticipated contractual pricing changes or insurance coverages. For insurance carriers with similar reimbursement characteristics, the Company uses a portfolio approach to estimate the effects of variable consideration. The Company also applies a constraint to the estimated variable consideration when it assesses it is probable that a significant reversal in the amount of cumulative revenue may occur in future periods.

When assessing the total consideration for insurance carriers and patients, a certain percentage of revenues is further constrained for estimated refunds.

Stock-based compensation

The Company's stock-based compensation relates to stock options, restricted stock units ("RSUs"), performance-based awards, market-based awards, and stock purchase rights under an Employee Stock Purchase Plan ("ESPP").

Stock based compensation granted to the Company's employees is measured at the grant date based on the fair value of the award. The fair value is recognized as expense over the requisite service period, which is generally the vesting period or estimated performance period of the respective awards.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options issued to employees and non-employees. Stock-based compensation expense for stock-based awards is based on their grant date fair value. The fair value of stock option awards is generally recognized as compensation expense on a straight-line basis over the requisite service period in which the awards are expected to vest and forfeitures are estimated based on historical trends at the time of grant and revised as necessary for service-based grants. If awards have both a service condition and performance or market condition, then an accelerated expense method is used. Stock option awards that include a service condition and a performance condition are considered expected to vest when the performance condition is probable of being met. The Black-Scholes model considers several variables and assumptions in estimating the fair value of stock-based awards. These variables include the per share fair value of the underlying common stock, exercise price, expected term, risk-free interest rate, expected annual dividend yield and the expected stock price volatility over the expected term. For all stock options granted, we calculate the expected term using the simplified method for "plain vanilla" stock option awards. The Company determines expected volatility using the historical volatility of the stock price of similar publicly traded peer companies. The risk-free interest rate is based on the yield available on U.S. Treasury zero-coupon issues similar in duration to the expected term of the equity-settled award.

The Company determines the fair value of RSUs based on the closing price of our stock price, which is listed on Nasdaq, at the date of the grant.

For stock options and performance-based awards that vest upon meeting performance conditions or market conditions in combination with performance conditions, the Company derives the requisite service period from the grant date to the date it is probable that the vesting conditions will be met. The requisite service period is considered to be a significant accounting estimate. For stock options with market conditions, the Company derives the requisite service period using the Monte Carlo simulation model.

The Monte Carlo simulation model is used to estimate the fair value of market-based condition awards. The model requires the input of the Company's expected stock price and peer stock price volatility, the expected term of the awards, and a risk-free interest rate. Determining these assumptions requires significant judgment. See further discussion on the valuation assumptions used under Note 9, *Stock Based Compensation*.

Income Taxes

Income taxes are recorded in accordance with Financial Accounting Standards Board ASC Topic 740, *Income Taxes* ("ASC 740"), which provides for deferred taxes using an asset and liability approach. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Tax benefits are recognized when it is more likely than not that a tax position will be sustained during an audit. Deferred tax assets are reduced by a valuation allowance if current evidence indicates that it is considered more likely than not that these benefits will not be realized. See further discussion in Note 11, *Income Taxes*.

Allowance for doubtful accounts

The allowance for doubtful accounts for trade accounts receivable and other receivables is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay.

Inventory

The Company's inventory balance primarily consists of raw materials and supplies. Inventory is recorded at the lower of cost or net realizable value, determined on a first-in, first-out basis. The Company uses judgment to analyze and determine if the composition of its inventory is obsolete, slow-moving or unsalable and frequently reviews such determinations. A write down of specifically identified unusable, obsolete, slow-moving or known unsalable inventory in the period is first recognized by using a number of factors including product expiration dates and scrapped inventory. Any

write-down of inventory to net realizable value establishes a new cost basis and will be maintained even if certain circumstances suggest the inventory is recoverable in subsequent periods. Costs associated with the write-down of inventory are recorded to cost of revenue on our consolidated statements of operations. The Company makes assumptions about future demand, market conditions and the release of new products that may supersede older products. However, if actual market conditions are less favorable than anticipated, additional inventory write-downs may be required.

Investments and financial instruments

The Company classifies its investments as Level 1 or 2 within the fair value hierarchy. Fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets that the Company has the ability to access. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. The Company holds Level 2 securities which are initially valued at the transaction price and subsequently valued by a third-party service provider using inputs other than quoted prices that are observable either directly or indirectly, such as yield curve, volatility factors, credit spreads, default rates, loss severity, current market and contractual prices for the underlying instruments or debt, broker and dealer quotes, as well as other relevant economic measures. The Company performs certain procedures to corroborate the fair value of these holdings.

Right-of-use assets

The incremental borrowing rate is used to determine the present value of the minimum future lease payments. The Company estimates the incremental borrowing rate of its leases based on the weighted-average annual percentage yield of corporate bonds with a similar credit rating as the Company and a similar bond term as the lease term as of the approximate lease commencement date.

Property and equipment

Property and equipment, including purchased and internally developed software, are stated at cost. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets, which are generally three to five years determined by the classification of the property and equipment class in accordance with the Company’s fixed asset policy. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the assets or the remaining term of the lease, whichever is shorter. The Company periodically reviews the useful lives assigned to property and equipment placed in service in accordance with the Company’s fixed asset policy and changes the estimates of useful lives to reflect the results of such reviews. The Company amortizes its internal-use software over the estimated useful lives of three years.

Other accrued liabilities

The Company's uses estimates, judgments, and assumptions in several areas including, but not limited to, estimates of progress to date for certain contracts with vendors, liabilities related to clinical trials, payroll and related expenses, marketing liabilities, reserves associated with insurance and general overpayments, tax-related liabilities, and other operating expenses. Estimates consist of historical trends, analytical procedures, review of supporting documentation, inquiries with supply partners and vendors, and other relevant assumptions. Although the Company believe its estimates, assumptions, and judgment are reasonable, it is based upon information presently available and are subject to change.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market deposits with financial institutions.

Restricted Cash

Restricted cash is currently presented as a separate line item in the Company’s balance sheet. In the statements of cash flows, it is included together with cash and cash equivalents and considered as part of the total ending cash balance.

Credit Losses

Appropriate provision has been made for lifetime expected credit losses in accordance with ASC Topic 326-20, *Financial Instruments—Credit Losses* ("Topic 326"), for trade receivables and available-for-sale debt securities. The Company's estimate of expected credit losses includes consideration of past events, current conditions, and forecasts of future economic conditions.

The following is a roll-forward of the allowances for credit losses related to trade accounts receivable and other receivables for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30,	
	2022	2021
	(in thousands)	
Beginning balance	$ 2,392	$ 4,110
Provision for credit losses	1,170	63
Write-offs	(1)	(385)
Total	$ 3,561	$ 3,788

	Six Months Ended June 30,	
	2022	2021
	(in thousands)	
Beginning balance	$ 2,429	$ 4,220
Provision for credit losses	1,501	63
Write-offs	(369)	(495)
Total	$ 3,561	$ 3,788

Available-for-sale debt securities. The amended guidance from ASU 2016-13 requires the measurement of expected credit losses for available-for-sale debt securities held at the reporting date over the remaining life based on historical experience, current conditions, and reasonable and supportable forecasts. The Company evaluated its investment portfolio under the available-for-sale debt securities impairment model guidance and determined the Company's investment portfolio is composed of low-risk, investment grade securities.

Investments

Investments consist primarily of debt securities such as U.S. Treasuries, U.S. agency and municipal bonds. Management determines the appropriate classification of securities at the time of purchase and re-evaluates such determination at each balance sheet date. The Company generally classifies its entire investment portfolio as available-for-sale. The Company views its available-for-sale portfolio as available for use in current operations. Accordingly, the Company classifies all investments as short-term, irrespective of maturity date. Available-for-sale securities are carried at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), which is a separate component of stockholders' equity.

Related Party

On December 6, 2021, the Company participated along with certain other investors in the series B financing of MyOme, Inc. ("MyOme"), and purchased preferred shares and warrants in exchange for a cash payment of approximately $4.0 million. The Company's investment in MyOme is recorded at cost and no impairment was identified as of June 30, 2022. The following are the Company's related persons and the basis of each such related person's relationship with MyOme:

- Matthew Rabinowitz, the Company's executive chairman and co-founder, is the chairman of the board and founder of MyOme, and a beneficial holder of approximately 35.5% of the outstanding shares of MyOme;
- Jonathan Sheena, the Company's co-founder and a member of the Company's board of directors, is a stockholder and a member of the board of directors of Myome;
- Daniel Rabinowitz, the Company's Secretary and Chief Legal Officer, is a stockholder of Myome; and
- Roelof Botha, the Company's Lead Independent Director, is a managing member of Sequoia Capital Operations, LLC. Two funds affiliated with Sequoia Capital Operations, LLC also participated in MyOme's series B financing, and purchased MyOme series B preferred shares for an aggregate purchase price of approximately $1.7 million.

Fair Value

The Company discloses the fair value of financial instruments for financial assets and liabilities for which the value is practicable to estimate. Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price).

Risk and Uncertainties

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, and the full extent and duration of the impact of the COVID 19 pandemic on our business, our operations, and the global economy as a whole is not yet known. While the Company's test volumes and overall average selling prices increased in the six months ended June 30, 2022 compared to the six months ended June 30, 2021, the Company cannot predict the potential nature, magnitude and duration of the effects of the COVID-19 pandemic on the macroeconomic environment.

Further, in our operations as a public company, prolonged government disruptions, global pandemics and other natural disasters or geopolitical actions, for example the geopolitical instability due to the ongoing military conflict between Russia and Ukraine, have resulted in significant economic uncertainty. These macroeconomic conditions could affect our ability to access the public markets and obtain necessary capital in order to properly capitalize and continue our operations.

Financial instruments that potentially subject the Company to credit risk consist of cash, accounts receivable and investments. The Company limits its exposure to credit loss by placing its cash in financial institutions with high credit ratings. The Company's cash may consist of deposits held with banks that may at times exceed federally insured limits of $250,000 per customer. The Company performs evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

The Company performs evaluations of financial conditions for insurance carriers, patients, clinics and laboratory partners and generally does not require collateral to support credit sales. For the three and six months ended June 30, 2022, and 2021, there were no customers exceeding 10% of total revenues on an individual basis. As of June 30, 2022 and December 31, 2021, there were no customers with an outstanding balance exceeding 10% of net accounts receivable.

Accumulated Other Comprehensive Income (Loss)

Comprehensive loss and its components encompass all changes in equity other than those with stockholders, and include net loss, unrealized gains and losses on available-for-sale marketable securities and foreign currency translation adjustments.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
	(in thousands)		*(in thousands)*	
Beginning balance	$ (13,904)	$ 3,197	$ (2,287)	$ 4,259
Net unrealized loss on available-for-sale securities, net of tax and foreign currency translation adjustment	(2,493)	(756)	(14,110)	(1,818)
Ending balance	$ (16,397)	$ 2,441	$ (16,397)	$ 2,441

The increase in net unrealized loss on available-for-sale securities is due to increased market volatility. The Company has assessed the unrealized loss position for available-for-sale securities and determined that an allowance for credit losses was not necessary.

Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") under its accounting standard codifications or other standard setting bodies and adopted by the Company as of the specified effective date. Unless otherwise discussed below, the Company believes that the impact of accounting standards updates recently issued that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

New Accounting Pronouncements Not Yet Adopted

In March 2020, ASU 2020-04, *Reference Rate Reform (Topic 848)* was issued which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships, and sale or transfer of debt securities classified as held-to-maturity. Early adoption of this ASU is permitted, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company's financial instruments that are in the scope of ASU 2020-04 include but are not limited to the UBS credit line agreement. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

3. Revenue Recognition

The Company recognizes revenues when, or as, performance obligations in the contracts are satisfied, in the amount reflecting the expected consideration to be received from the goods or services transferred to the customers.

Product Revenues

Product revenues are derived from contracts with insurance carriers, laboratory partners and patients in connection with sales primarily related to prenatal genetic tests. The Company enters into contracts with insurance carriers with primarily payment terms related to tests provided to the patients who have health insurance coverage. Insurance carriers are considered as third-party payers on behalf of the patients, and the patients are considered as the customers who receive genetic test services. Tests may be billed to insurance carriers, patients, or a combination of insurance carriers and patients. Further, the Company sells tests to a number of domestic and international laboratory partners and identifies the laboratory partners as customers provided that there is a test services agreement between the two parties.

Additionally, the Company enters into agreements with pharmaceutical companies to utilize the Company's Signatera tests typically to study new cancer treatments or to validate the outcomes of clinical trials for which the pharmaceutical companies are identified as customers. Such arrangements generally involve performing whole exome sequencing ("WES") services and the testing of patient samples to detect cancer mutations using its Signatera test. Each test is billable to customers and the personalized cancer profile also makes each test distinct within the context of the contract as customers can exercise control over the test results upon delivery. The Company allocates the contract price to each test using the stand-alone selling price for each service and recognizes the test processing revenue as individual test results are delivered to customers.

A performance obligation represents a promise in a contract to transfer a distinct good or service to a customer, which represents a unit of accounting in accordance with ASC 606. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. The Company considers a performance obligation satisfied once the Company has transferred control of a good or service to the customer, meaning the customer has the ability to use and obtain the benefit of the good or service. A portion of the consideration should be allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company evaluates its contracts with insurance carriers, laboratory partners and patients and identifies the performance obligations in those contracts, which are the delivery of the test results.

The total consideration which the Company expects to collect in exchange for the Company's products is an estimate and may be fixed or variable. Consideration includes reimbursement from both patients and insurance carriers, adjusted for variable consideration related to disallowed cases, discounts, refunds and doubtful accounts, and is estimated using the expected value approach. For insurance carriers with similar reimbursement characteristics, the Company uses a portfolio of relevant historical data to estimate variable consideration and total collections for the Company's products. The Company constrains the estimated variable consideration when it assesses it is probable that a significant reversal in the amount of cumulative revenue recognized may occur in future periods. The consideration expected from laboratory partners usually includes a fixed amount, but it can be variable depending on the volume of tests performed, and the Company determines the variable consideration using the expected value approach. For insurance carriers, laboratory partners and patients, the Company allocates the total consideration to a single performance obligation, which is the delivery of the test results to the customers.

When assessing the total consideration for insurance carriers and patients, a certain percentage of revenues is further constrained for estimated refunds.

The Company generally bills an insurance carrier, a laboratory partner or a patient upon delivery of test results. The Company also bills patients directly for out-of-pocket costs involving co-pays and deductibles that they are responsible for. Tests billed to insurance carriers and directly to patients usually take an average of nine to twelve months to collect payment, and for tests billed to laboratory distribution partners, the average collection cycle takes approximately two to three months. At times, the Company may or may not get reimbursed for the full amount billed. Further, the Company

may not get reimbursed at all for tests performed if such tests are not covered under the insurance carrier's reimbursement policies or the Company is not a qualified provider to the insurance carrier, or if the tests were not previously authorized.

Product revenue is recognized in an amount equal to the total consideration (as described above) at a point in time when the test results are delivered. The Company reserves certain amounts in other accrued liabilities on the balance sheet in anticipation of requests for refunds of payments previously made by insurance carriers, which are accounted for as reductions in product revenues in the statement of operations and comprehensive loss. During the three months ended June 30, 2022 and 2021, $1.8 million and $1.7 million, respectively, were released from amounts previously held in reserves in other accrued liabilities, and recognized as product revenue. During the six months ended June 30, 2022 and 2021, $3.4 million and $3.0 million, respectively, were released from amounts previously held in reserves in other accrued liabilities, and recognized as product revenue. The release of amounts reserved were recognized as product revenue within that period.

Licensing and Other Revenues

The Company recognizes licensing revenues from its cloud-based distribution service offering, Constellation, by granting licenses to its licensees to use certain of the Company's proprietary intellectual properties and cloud-based software and IVD kits. The Company also recognizes revenues from its agreements with Qiagen LLC, ("Qiagen"), BGI Genomics Co., Ltd. ("BGI Genomics"), and Foundation Medicine, Inc. ("Foundation Medicine").

Constellation

The laboratory partners with whom the Company enters into a licensing arrangement represent the licensees and are identified as customers. The licensees do not have the right to possess the Company's software, but rather receive services through the cloud software. These arrangements often include: (i) the delivery of the services through the cloud software, (ii) the necessary support and training, and (iii) the IVD kits to be consumed as tests are processed. The Company does not consider the software as a service, the support or the training as being distinct in the context of such arrangements, and therefore they are combined as a single performance obligation. The software, support and training are delivered simultaneously to the licensees over the term of the arrangement.

The Company bills the majority of licensees, who process the tests in their laboratories, a fixed price for each test processed. Licensing revenues are recognized as the performance obligations are satisfied (i.e., upon the delivery of each test) and reported in licensing and other revenues in the Company's statements of operations and comprehensive loss.

Qiagen

In March 2018, the Company entered into a License, Development and Distribution Agreement (the "Qiagen Agreement") with Qiagen under which the Company granted Qiagen a license to develop, manufacture, distribute and commercialize NGS-based genetic testing assays and sequencing systems utilizing such assays, which incorporate the Company's proprietary technology. According to the terms of the Qiagen Agreement, the Company is initially entitled to receive an upfront license fee and prepaid royalties totaling $40.0 million, which were fully collected in 2018. All or a portion of the prepaid royalties are refundable in limited circumstances. In addition, the Company was entitled to potential milestone payments from Qiagen upon the successful achievement of certain volume, regulatory and commercial milestones, and tiered royalties of $10.0 million, of which the Company received $5.0 million due December 31, 2018. The Qiagen Agreement has a term of 10 years and expires in March 2028, and it may be terminated earlier in certain circumstances. Upon termination of the Qiagen Agreement, the license granted to Qiagen will also terminate, except in certain limited circumstances. The Company provided to Qiagen standard indemnification protections, which is part of an assurance that the license meets the contract's specifications and is not an obligation to provide goods or services.

Effective in March 2020, the Company terminated the Qiagen Agreement. Subsequently, in March 2021, the Company and Qiagen signed a Termination and Settlement Agreement where the Company agreed to refund a net $10 million as a result of the termination. The remaining $28.6 million of deferred revenue was recognized as other licensing and other revenue in the first quarter of 2021.

BGI Genomics

In February 2019, the Company entered into a License Agreement (the "BGI Genomics Agreement") with BGI Genomics to develop, manufacture, and commercialize NGS-based genetic testing assays for clinical and commercial use. The BGI Genomics Agreement has a term of ten years and expires in February 2029. According to the BGI Genomics Agreement, the Company is entitled to a total of $50.0 million, comprised of upfront technology license fees, prepaid royalties relating to future sales of licensed products and performance of assay interpretation services, and milestone payments. During the three months ended June 30, 2019, the Company received $35.6 million, net of withholding taxes, of these amounts. The Company recorded a receivable of $2.5 million upon achieving the first milestone as of June 30, 2019, which was received in January 2021. Also, as required by the BGI Genomics Agreement, in June 2019 the Company prepaid $6.0 million to BGI Genomics for future sequencing services and $4.0 million for future sequencing equipment. These advance payments for equipment and services to be received in future periods aggregating to $10.0 million were recorded in long-term advances on the Company's Condensed Consolidated Balance Sheet. The Company has recorded a receivable of $5.0 million upon achieving a milestone in the first quarter of 2022 which has not been received as of June 30, 2022.

Pursuant to the BGI Genomics Agreement, the Company licensed its intellectual property and will provide development services. Following completion of development services, the Company will provide assay interpretation services over the term of the BGI Genomics Agreement. The Company concluded that the license is not a distinct performance obligation as it does not have a stand-alone value to BGI Genomics apart from the related development services. Therefore, license and related development services, for each NIPT and Oncology product, represents a single performance obligation.

The Company is responsible for granting a license to specified intellectual property and performing certain development activities to customize its genetic testing assays for oncology and NIPT for use with BGI Genomics' sequencing instruments and proprietary technology platform. Revenue associated with these performance obligations is recognized over time using the input method, based on costs incurred to perform the development services, since the level of costs incurred over time best reflect the transfer of development services. Revenue associated with the assay interpretation services will be recognized upon delivery of these services. Funds received in advance are recorded as deferred revenue and will be recognized as the related services are delivered.

The initial transaction price was primarily comprised of license and milestone fees. The Company constrains the estimated variable consideration when it assesses it is probable that a significant reversal in the amount of cumulative revenue recognized may occur in future periods. Certain milestone and license fees were constrained and not included in the transaction price due to the uncertainties of research and development. The Company re-evaluates the transaction price, including the estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as uncertain events are resolved or other changes in circumstances occur. The allocation of the transaction price was performed based on standalone selling prices, which are based on estimated amounts that the Company would charge for a performance obligation if it were sold separately.

In accordance with ASC 340-40, any incremental costs incurred to obtain a contract with a customer are required to be capitalized and amortized over the period in which the goods and services are transferred to the customer. The Company has elected to apply a practical expedient under ASC 340-40 to recognize the incremental costs of obtaining a contract as an expense when incurred provided that the amortization period of such costs, if capitalized, is one year or less. The incremental costs incurred in connection with the BGI Genomics arrangement is not material on an accumulated basis and therefore will not be capitalized on the balance sheet but will be expensed as incurred.

Foundation Medicine, Inc.

In August 2019, the Company entered into a License and Collaboration Agreement (the "Foundation Medicine Agreement") with Foundation Medicine to develop and commercialize personalized circulating tumor DNA monitoring assays, for use by biopharmaceutical and clinical customers who order Foundation Medicine's FoundationOne CDx. The Foundation Medicine Agreement has an initial term of five years, expiring in August 2024, with automatic renewals thereafter for successive one-year terms, unless the Foundation Medicine Agreement is earlier terminated in accordance with its terms. Natera and Foundation Medicine will share the revenues generated from both biopharmaceutical and clinical customers in accordance with the terms of the Foundation Medicine Agreement. The Foundation Medicine Agreement provides for approximately $13.3 million in upfront licensing fees and prepaid revenues payable to the Company, and up to approximately $32.0 million in minimum annual payments and payments tied to the Company's achievement of certain developmental, regulatory, and commercial milestones. As of December 31, 2019, the Company received $16.3 million of these amounts, of which $3.0 million was for achieving certain milestones, and $13.3 million was for licensing fees and prepaid revenue. There was an additional milestone met in May 2021. The Company accrued a $1.0 million milestone payment against accounts receivable and short-term deferred revenue. This milestone was paid in early July 2021. Additionally, the Company included an incremental $2.0 million in the transaction price of the contract based on the expectation of achieving a certain milestone in early 2022. This amount was not part of the initial transaction price. In the first quarter of 2022, the Company has recorded a receivable of $2.0 million upon achieving a milestone. No other payments have been received in the six months ending June 30, 2022.

Pursuant to the Foundation Medicine Agreement, the Company will provide development services in conjunction with granting the use of the Company's intellectual property. Following completion of those development services, the Company is currently providing research use only assay testing services over the term of the agreement. The Company has concluded that the license is not a distinct performance obligation as it is highly interrelated and interdependent with the related development services. Therefore, license and related development services represent a single performance obligation.

The Company is responsible for providing the technology license and certain development services that are required to customize its proprietary Signatera test to work with Foundation Medicine's FoundationOne CDx. The intellectual property has been licensed to Foundation Medicine for the customized test. In addition, the Company is responsible for delivering clinical study plans in order to demonstrate efficacy of the customized test which commenced in the second quarter of 2021. Revenues associated with each of the performance obligations are recognized over time using the input method, based on costs incurred to perform the development services, since the level of costs incurred over time best reflect the transfer of development services. Revenue associated with the assay testing services will be recognized upon delivery of these services. Funds received in advance are recorded as deferred revenue and will be recognized as the related services are delivered.

The initial transaction price was primarily comprised of license and milestone fees. The Company constrains the estimated variable consideration when it assesses it is probable that a significant reversal in the amount of cumulative revenue recognized may occur in future periods. Certain milestone fees were constrained and not included in the transaction price due to the uncertainties of research and development. The Company re-evaluates the transaction price, including the estimated variable consideration included in the transaction price and all constrained amounts, in each reporting period and as uncertain events are resolved or other changes in circumstances occur. The allocation of the transaction price was performed based on standalone selling prices, which are based on estimated amounts that the Company would charge for a performance obligation if it were sold separately.

In accordance with ASC 340-40, any incremental costs incurred to obtain a contract with a customer are required to be capitalized and amortized over the period in which the goods and services are transferred to the customer. The Company has elected to apply a practical expedient under ASC 340-40 to recognize the incremental costs of obtaining a contract as an expense when incurred provided that the amortization period of such costs, if capitalized, is one year or less.

Disaggregation of Revenues

The Company measures its performance results primarily based on revenues recognized from the three categories described below. The following table shows disaggregation of revenues by payer types:

(in thousands)	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Insurance carriers	$ 167,822	$ 118,396	$ 332,564	$ 218,795
Laboratory and other partners	22,142	15,599	42,879	60,134
Patients	8,236	8,031	16,890	15,413
Total revenues	$ 198,200	$ 142,026	$ 392,333	$ 294,342

The following table presents total revenues by geographic area based on the location of the Company's payers:

(in thousands)	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
United States	$ 191,886	$ 134,814	$ 379,103	$ 279,771
Americas, excluding U.S.	530	992	1,271	1,805
Europe, Middle East, India, Africa	3,736	4,265	7,427	8,724
Asia Pacific and Other	2,048	1,955	4,532	4,042
Total revenues	$ 198,200	$ 142,026	$ 392,333	$ 294,342

The following table summarizes the Company's beginning and ending balances of accounts receivable and deferred revenues:

(in thousands)	Balance at June 30, 2022	Balance at December 31, 2021
Assets:		
Accounts receivable	$ 208,312	$ 122,074
Liabilities:		
Deferred revenue, current portion	$ 16,009	$ 7,404
Deferred revenue, long-term portion	20,721	21,318
Total deferred revenues	$ 36,730	$ 28,722

The following table summarizes the changes in the balance of deferred revenues during the six months ended June 30, 2022 and 2021:

(in thousands)	June 30, 2022	June 30, 2021
Beginning balance	$ 28,722	$ 72,930
Increase in deferred revenues	14,974	3,474
Refunds of revenues previously deferred	—	(10,000)
Revenue recognized during the period that was included in deferred revenues at the beginning of the period	(5,757)	(30,839)
Revenue recognized from performance obligations satisfied within the same period	(1,209)	(1,356)
Ending balance	$ 36,730	$ 34,209

During the six months ended June 30, 2022, revenue recognized that was included in the deferred revenue balance at the beginning of the period totaled $5.8 million. This balance consisted of approximately a net $3.9 million related to BGI Genomics and Foundation Medicine and $1.9 million related to genetic testing services. The current portion of deferred revenue includes $6.4 million from the BGI Genomics Agreement and $1.4 million from the Foundation Medicine Agreement as of June 30, 2022.

4. Fair Value Measurements

The Company's financial assets and liabilities carried at fair value are comprised of investment assets that include money market and investments.

The fair value accounting guidance requires that assets and liabilities be carried at fair value and classified in one of the following three categories:

Level I: Quoted prices in active markets for identical assets and liabilities that the Company has the ability to access.

Level II: Observable market-based inputs or unobservable inputs that are corroborated by market data, such as quoted prices, interest rates, and yield curves.

Level III: Inputs that are unobservable data points that are not corroborated by market data.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

Assets and Liabilities That Are Measured at Fair Value on a Recurring Basis

The following table represents the fair value hierarchy for the Company's financial assets and financial liabilities measured at fair value on a recurring basis:

	June 30, 2022				December 31, 2021			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
	(in thousands)							
Financial Assets:								
Money market deposits	$ 40,268	$ —	$ —	$ 40,268	$ 10,041	$ —	$ —	$ 10,041
U.S. Treasury securities	447,004	—	—	447,004	688,097	—	—	688,097
Corporate bonds and notes	—	33,441	—	33,441	—	52,337	—	52,337
Municipal securities	—	66,908	—	66,908	—	89,462	—	89,462
Total financial assets	$ 487,272	$ 100,349	$ —	$ 587,621	$ 698,138	$ 141,799	$ —	$ 839,937

Fair Value of Debt:

As of June 30, 2022, the estimated fair value of the Convertible Notes, which are not presented at fair value on the Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021, was $359.6 million and $715.7 million, respectively, based upon observable, Level 2 inputs, including pricing information from recent trades of the Convertible Notes. As of June 30, 2022 and December 31, 2021, the fair value of the UBS Credit Line, consisting of the total principal amount outstanding with accrued interest, was $50.1 million. See Note 10, *Debt*, for additional details.

5. Financial Instruments

The Company elected to invest a portion of its cash assets in conservative, income earning, and liquid investments. Cash equivalents and investments, all of which are classified as available-for-sale securities, consisted of the following:

	June 30, 2022			December 31, 2021			
	Amortized Cost	Gross Unrealized Loss	Estimated Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
			(in thousands)				
Money market deposits	$ 40,268	$ —	$ 40,268	$ 10,041	$ —	$ —	$ 10,041
U.S. Treasury securities (1)	459,509	(12,505)	447,004	689,640	1,081	(2,624)	688,097
Corporate bonds and notes (1)	34,280	(839)	33,441	52,729	—	(392)	52,337
Municipal securities	69,749	(2,841)	66,908	89,814	261	(613)	89,462
Total	$ 603,806	$ (16,185)	$ 587,621	$ 842,224	$ 1,342	$ (3,629)	$ 839,937
Classified as:							
Cash equivalents (2)			40,268				10,041
Short-term investments			547,353				829,896
Total			$ 587,621				$ 839,937

(1) Per the Company's investment policy, all U.S. Treasury securities and debt securities are classified as short-term investments irrespective of holding period.
(2) Cash equivalents includes cash sweep accounts and U.S. Treasury money market mutual funds.

The Company invests in U.S. Treasuries, U.S. agency and high-quality municipal bonds which mature at par value and are all paying their coupons on schedule. The Company has therefore concluded there is currently no other than temporary impairment of its investments and will continue to recognize unrealized gains and losses in other comprehensive income (loss). During the six months ended June 30, 2022, the Company sold $191.9 million of investments. During the six months ended June 30, 2022, the amount of net realized losses upon sales of investments was $0.2 million. The Company uses the specific investment identification method to calculate realized gains and losses and amounts reclassified

out of other comprehensive income to net income. As of June 30, 2022, the Company had 70 investments in an unrealized loss position in its portfolio. An allowance for credit losses was not necessary since the investments are low risk, investment grade securities. The Company has assessed the unrealized loss position for available-for-sale debt securities for which an allowance for credit losses has not been recorded. The fair value for investment securities at an unrealized loss position as of June 30, 2022 was $547.4 million. The aggregate amount of unrealized losses of these securities was $16.2 million, and the impact of the securities in a continuous loss position to the condensed consolidated statements of operations and comprehensive loss was not material as of June 30, 2022.

The following table summarizes the Company's portfolio of available-for-sale securities by contractual maturity as of June 30, 2022:

	June 30, 2022	
	Amortized Cost	Fair Value
	(in thousands)	
Less than or equal to one year	$ 187,392	$ 184,947
Greater than one year but less than five years	376,146	362,406
Total	$ 563,538	$ 547,353

6. Balance Sheet Components

Property and Equipment, net

The Company's property and equipment consisted of the following:

	Useful Life	June 30, 2022	December 31, 2021
		(in thousands)	
Machinery and equipment	3-5 years	$ 54,265	$ 33,722
Computer equipment	3 years	1,138	4,893
Capitalized software held for internal use	3 years	3,112	2,395
Leasehold improvements	Lesser of useful life or lease term	27,814	13,640
Construction-in-process		22,000	30,279
		108,329	84,929
Less: Accumulated depreciation and amortization		(26,557)	(19,413)
Total Property and Equipment, net		$ 81,772	$ 65,516

The Company's long-lived assets are primarily located in the United States.

During the six months ended June 30, 2022, the increase in net property and equipment was due to purchases of new equipment for the Company's laboratories located in Texas and California to expand testing capabilities, offset by depreciation expense of $7.3 million recorded in the six months ended June 30, 2022 compared to depreciation expense of $5.3 million recorded in the six months ended June 30, 2021. The Company did not incur an impairment charge during the six months ended June 30, 2022 or June 30, 2021.

Accrued Compensation

The Company's accrued compensation consisted of the following:

	June 30, 2022	December 31, 2021
	(in thousands)	
Accrued paid time off	$ 2,930	$ 2,567
Accrued commissions	12,454	15,726
Accrued bonuses	11,324	15,854
Other accrued compensation	6,251	6,794
Total accrued compensation	$ 32,959	$ 40,941

Other Accrued Liabilities

The Company's other accrued liabilities consisted of the following:

	June 30, 2022	December 31, 2021
	(in thousands)	
Reserves for refunds to insurance carriers	$ 15,912	$ 17,210
Accrued charges for third-party testing	23,142	5,849
Testing and laboratory materials from suppliers	13,997	3,799
Marketing and corporate affairs	6,449	7,853
Legal, audit and consulting fees	21,374	11,758
Accrued shipping charges	2,157	969
Sales tax payable	1,857	2,230
Accrued third-party service fees	1,354	13,442
Clinical trials and studies	21,166	11,218
Operating lease liabilities, current portion	5,636	5,752
Fixed asset purchases	5,608	1,853
Other accrued interest	1,078	1,078
Other accrued expenses	4,642	10,342
Total other accrued liabilities	$ 124,372	$ 93,353

Reserves for refunds to insurance carriers include overpayments from and amounts to be refunded to insurance carriers, and additional amounts that the Company estimates for potential refund requests during the period. When the Company releases these previously accrued amounts, they are recognized as product revenues in the condensed statements of operations and comprehensive loss.

The following table summarizes the reserve balance and activities for refunds to insurance carriers for the six months ended June 30, 2022 or June 30, 2021:

	June 30, 2022	June 30, 2021
	(in thousands)	
Beginning balance	$ 17,210	$ 17,366
Additional reserves	8,576	10,960
Refunds to carriers	(6,491)	(3,054)
Reserves released to revenue	(3,383)	(2,971)
Ending balance	$ 15,912	$ 22,301

7. Leases

Operating Leases

In September 2015, the Company's subsidiary entered into a long-term lease agreement for laboratory and office space totaling approximately 94,000 square feet in Austin, Texas. The lease term is 132 months beginning in December 2015 and expiring in November 2026 with monthly payments beginning in December 2016. In December 2021, the Company entered into an amendment of the Austin lease agreement which extended the lease of the current premises through March 2033. The amendment also includes two additional office spaces (the "First Expansion Premises" and the "Second Expansion Premises"). The First Expansion Premises consists of 32,500 rentable square feet and commenced in February 2022. The Second Expansion Premises consists of 65,222 rentable square feet and commences in September 2022. The terms of the First and Second Expansion Premises expire in March 2033.

In October 2016, the Company entered into a lease directly with its landlord for laboratory and office spaces at its facilities located in San Carlos, California. The Company currently occupies approximately 113,000 square feet comprised of two office spaces (the "First Space" and the "Second Space"). The First Space covers approximately 88,000 square feet, and the Second Space totals approximately 25,000 square feet. The term of this lease is approximately 84 months and expires in October 2023. This lease contains an option to renew the lease term for five years, but the fair market rent amount upon renewal is not available from the landlord. In January 2021, the Company entered into an amendment of the lease to extend the term for 48 months to October 2027. The combined annual rent for the First Space and Second Space will be $9.3 million commencing in October 2023.

The Company entered into a lease agreement commencing June 2018 for its cord blood tissue storage facility in Tukwila, Washington that covers approximately 10,000 square feet. The lease term is 62 months expiring in July 2023. The Company has the option to extend this lease for five years, and the fair market rent upon renewal is not determinable. However, since the Company sold its business related to cord blood and tissue storage in September 2019, the Company has subleased the facility and does not intend to exercise its option to renew the facility upon expiration.

In addition, the Company entered into a sublease agreement in June 2019 with a third party to sublease 25,879 square feet of space located on the third floor of the San Carlos, California building while maintaining its primary obligation as the intermediate lessor. The term of this lease is approximately 48 months commencing in October 2019 and expiring in September 2023. The annual lease payment starts at $1.9 million and will escalate annually commencing in October 2020. An amendment of the San Carlos sublease agreement was entered in February 2021 and the third party surrendered 25,879 rentable square feet in the fourth quarter of 2021.

The Company entered into a lease agreement in November 2020 to lease 11,395 square feet of space located in South San Francisco, California over a 36-month term. The premises will be used for general office, laboratory and research use. The annual lease payment starts at $0.9 million and will escalate annually commencing in December 2021.

As part of the IPR&D asset acquisition in September 2021, the Company inherited a lease for 7,107 square feet of laboratory space in Canada over a 24-month period. The annual lease payment starts at $0.2 million.

The Company has also historically entered into leases of individual workspaces and storage spaces at various locations on both a month-to-month basis without an established lease term, and more recently for certain locations, has committed to terms approximating one to five years. For the facilities without a committed lease term, the Company has elected to not recognize them as right-of-use assets on the condensed consolidated balance sheets as they are all considered short-term leases. For individual workspaces where the committed lease term exceeds one year, the Company has recorded a right-of-use asset on the condensed consolidated balance sheets.

For the six months ended June 30, 2022, the Company had noncash operating activities of $7.5 million primarily related to additional right-of-use assets related to the Austin First Expansion Premises commenced in February 2022 which was accounted for as a new lease under ASC 842. For the six months ended June 30, 2021, the Company had noncash operating activities of $30.1 million related to additional right-of-use assets primarily as a result of the San Carlos lease extension which was accounted for as a modification under ASC 842.

The operating lease right-of-use assets are classified as noncurrent assets in the balance sheet. The corresponding lease liabilities are separated into current and long-term portions as follows:

	June 30, 2022	December 31, 2021
	(in thousands)	
Operating lease liabilities, current portion included in other accrued liabilities	$ 5,636	$ 5,752
Operating lease liabilities, long-term portion	65,417	61,036
Total operating lease liabilities	$ 71,053	$ 66,788

The initial recognition of the operating lease liabilities was measured as the present value of the future minimum lease payments using a discount rate determined as of January 1, 2019. The operating right-of-use assets was calculated as the operating lease liabilities discounted at the present value, less the amount of unamortized tenant improvement allowance and deferred rent. The discount rate used was the Company's incremental borrowing rate given that the implicit rate to each lease was not readily determinable. In accordance with ASC 842, the incremental borrowing rate was estimated as the annual percentage yield resulting from a corporate debt financing over a loan term approximating the remaining term of each lease, with the effect of certain credit risk rating. As of June 30, 2022, the weighted-average remaining lease term was 4.77 years and the weighted-average discount rate was 6.20%.

The Company continues to recognize lease expense on a straight-line basis. The lease expense includes the amortization of the right-of-assets with the associated interest component estimated by applying the effective interest method. For the three months ended June 30, 2022 and 2021, total lease expense of $3.3 million and $2.7 million was recognized in the condensed statements of operations and comprehensive loss, respectively. For the six months ended June 30, 2022 and 2021, total lease expense of $6.5 million and $5.4 million was recognized in the condensed statements of operations and comprehensive loss, respectively. Cash paid for amounts in the measurement of operating lease liabilities totaled $2.8 million and $2.5 million for the three months ended June 30, 2022 and 2021, respectively. Cash paid for amounts in the measurement of operating lease liabilities totaled $5.5 million and $5.0 million for the six months ended June 30, 2022 and 2021, respectively.

The present value of the future annual minimum lease payments under all non-cancellable operating leases as of June 30, 2022 are as follows:

	Operating Leases
	(in thousands)
Year ending December 31:	
2022 (remaining 6 months)	$ 4,524
2023	11,701
2024	13,169
2025	13,437
2026	13,816
2027 and thereafter	34,100
	90,747
Less: imputed interest	(19,694)
Operating lease liabilities	$ 71,053

8. Commitments and Contingencies

Legal Proceedings

From time to time, the Company is involved in disputes, litigation, and other regulatory or administrative actions or proceedings, including those with respect to intellectual property, employment, testing, billing, reimbursement and other matters. These may include allegations of negligence, products/professional liability or other legal claims, and could involve claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. The Company is responding to, aggressively defending, and/or prosecuting its current legal matters, but cannot provide any assurance as to the ultimate outcome or that an adverse resolution would not have a material adverse effect on its financial condition and results of operations. There are many uncertainties associated with any litigation and these actions or other third-party claims against the Company, including by governmental entities, or by the Company against third parties, may cause the Company to incur costly litigation and/or substantial settlement charges. In addition, the resolution of any intellectual property litigation may require the Company to make royalty payments, which could adversely affect gross margins in future periods. If this were to occur, the Company's business, financial condition, results of operations, and cash flows could be adversely affected.

The Company assesses legal contingencies to determine the degree of probability and range of possible loss for potential accrual in its financial statements. When evaluating legal contingencies, the Company may be unable to provide a meaningful estimate due to a number of factors, including the procedural status of the matter in question, the presence of complex or novel legal theories, and/or the ongoing discovery and development of information important to the matters. In addition, damage amounts claimed in litigation or other matters may be unsupported, exaggerated or unrelated to possible outcomes, and as such are not meaningful indicators of its potential liability. Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. During the periods presented, the Company does not believe there are such matters that will have a material effect on the financial statements.

Intellectual Property Litigation Matters.

The Company has been involved in two patent litigations against CareDx, Inc. (“CareDx”) in the United States District Court for the District of Delaware (“CareDx Patent Cases”). In the first suit, CareDx alleged, in a complaint filed jointly with the Board of Trustees of the Leland Stanford Junior University (“Stanford”) in March 2019 and amended in March 2020, that the Company infringed three patents. The complaint sought unspecified damages and injunctive relief. In September 2021, the Court granted the Company’s motion for summary judgment, finding all three patents invalid. This finding was affirmed on appeal in July 2022 by the United States Court of Appeals for the Federal Circuit. The Company filed the second suit in January 2020, in which the Company alleges infringement by CareDx of two of the Company’s patents, seeking unspecified damages and injunctive relief. The case is currently pending and is scheduled for trial in July 2023.

The Company has filed suit against ArcherDX, Inc. (“ArcherDX”) in the United States District Court for the District of Delaware, alleging, in complaints and amended complaints filed in January, April, and August of 2020, which cases were consolidated in September 2020, that certain ArcherDX products infringe five of the Company’s patents (the “ArcherDX case”). In January 2021, the Company filed a second amended complaint naming an additional Archer DX entity, ArcherDx LLC, and Invitae Corp. as defendants. The Company is seeking unspecified monetary damages and injunctive relief.

The Company is the subject of a lawsuit filed against it by Ravgen, Inc. (“Ravgen”) in June 2020 in the United States District Court for the Western District of Texas, alleging infringement of two Ravgen patents. The complaint seeks monetary damages and injunctive relief. Various parties, including Natera, have filed challenges to the validity of the asserted patents with the United States Patent and Trademark Office, which challenges have been instituted for review. The case has been stayed pending the outcome of these validity challenges.

The Company was involved in litigation against Progenity, Inc. ("Progenity"), in which the Company alleged that Progenity's NIPT test infringes six of the Company's patents. Progenity sought declaratory judgment of non-infringement of the Company's asserted patents, and petitioned the Patent Trial and Appeal Board of the United States Patent and Trademark Office for *inter partes* review of all of the Company's asserted patents. In August 2021, the parties entered into a settlement agreement to settle the matters described above.

In October 2020, the Company filed suit against Genosity Inc. ("Genosity"), in the United States District Court for the District of Delaware, alleging that various Genosity products infringe one of the Company's patents and seeking unspecified monetary damages and injunctive relief. In April 2022, the Court granted the parties' stipulated request to stay the case pending the entry of a final judgment in the ArcherDX Litigation, in which the subject patent is also asserted.

In January 2021, the Company filed suit against Inivata, Inc. and Inivata Ltd. (collectively "Inivata") in the United States District Court for the District of Delaware. The complaint, amended by the Company in May 2021, alleges that various Inivata oncology products infringe two of the Company's patents and seeks unspecified monetary damages and injunctive relief. Inivata filed a motion to dismiss the Company's amended complaint, which the Court denied in March 2022.

The Company is the subject of lawsuits filed against it by Invitae Corp. ("Invitae") in the United States District Court of the District of Delaware alleging, in complaints filed in May and November of 2021, infringement of three patents and seeking monetary damages and injunctive relief.

Other Litigation Matters.

In August 2019, a suit was filed against the Company in the Circuit Court of Cook County, Illinois by a patient alleging claims relating to a discordant test result and seeking monetary damages. The suit was dismissed in June 2021.

The Company is involved in litigation with CareDx. CareDx filed suit against the Company in April 2019 in the United States District Court for the District of Delaware, alleging false advertising, and related claims based on statements describing studies that concern the Company's technology and CareDx's technology, seeking unspecified damages and injunctive relief. In February 2020, the Company filed a counterclaim against CareDx in the United States District Court for the District of Delaware, alleging false advertising, unfair competition and deceptive trade practices and seeking unspecified damages and injunctive relief. In March 2022, after trial, the jury returned a verdict that Natera was liable to CareDx and found damages of $44.9 million. The jury also returned a verdict against CareDx, finding that CareDx had engaged in false advertising. The Company has filed a motion for judgment as a matter of law, requesting that the Court set aside the portions of the jury verdict adverse to Natera and issue a judgment accordingly. Because the Court has not issued an order of judgment, and because the motion for judgment as a matter of law remains pending, Natera does not consider a loss related to this matter to be probable and estimable.

The Company is involved in litigation against Guardant, Inc. ("Guardant"). On or about May 27, 2021, Guardant filed suit against the Company in the United States District Court of the Northern District of California alleging false advertising and related claims and seeking unspecified damages and injunctive relief. On or about May 28, 2021, the Company filed suit against Guardant in the Western District of Texas, alleging false advertising and related claims. The Company has voluntarily dismissed its Texas suit against Guardant. In the California action, the Company has answered Guardant's complaint and has asserted the claims from the action it dismissed in Texas as counterclaims, seeking unspecified damages and injunctive relief. In August 2021, Guardant moved to dismiss the Company's counterclaims, which motion was denied in all material respects.

In November 2021, a purported class action lawsuit was filed against the Company in the United States District Court for the Northern District of California, by a patient alleging various causes of action relating to the Company's patient billing and seeks, among other relief, class certification, injunctive relief, restitution and/or disgorgement, attorneys' fees, and costs. The Company has filed a motion to dismiss the lawsuit, on which a hearing is scheduled for August 2022.

In February 2022, two purported class action lawsuits were filed against the Company in the United States District Court for the Northern District of California. Each suit was filed by an individual patient alleging various causes of action related to the marketing of Panorama and seeking, among other relief, class certification, monetary damages, attorneys' fees, and costs. In May 2022, these matters were consolidated into one lawsuit. The Company has filed a motion to dismiss the consolidated lawsuit, a hearing for which has not yet been scheduled.

In March 2022, a purported class action lawsuit was filed against the Company and certain of its management in the Supreme Court of the State of New York, County of New York, asserting claims under Sections 11, 12, and 15 of the Securities Act of 1933. The complaint alleges, among other things, that the Company failed to disclose certain information regarding its Panorama test. The complaint seeks, among other relief, monetary damages, attorneys' fees, and costs. In July 2022, the parties filed a request for dismissal of the lawsuit. The Company expects these claims to be included in the lawsuit discussed below.

In April 2022, a purported class action lawsuit was filed against the Company and certain of its management in the United States District Court for the Western District of Texas, asserting claims under Sections 10(b) and 20(a) of the Securities Act of 1934 and Rule 10b-5 thereunder. The complaint alleges, among other things, that the management defendants made materially false or misleading statements, and/or omitted material information that was required to be disclosed, about certain of the Company's products and operations. The complaint seeks, among other relief, monetary damages, attorneys' fees, and costs.

Director and Officer Indemnifications

As permitted under Delaware law, and as set forth in the Company's Amended and Restated Certificate of Incorporation and its Amended and Restated Bylaws, the Company indemnifies its directors, executive officers, other officers, employees and other agents for certain events or occurrences that may arise while in such capacity. The maximum potential future payments the Company could be required to make under this indemnification is unlimited; however, the Company has insurance policies that may limit its exposure and may enable it to recover a portion of any future amounts paid. Assuming the applicability of coverage, the willingness of the insurer to assume coverage, and subject to certain retention, loss limits and other policy provisions, the Company believes any obligations under this indemnification would not be material, other than standard retention amounts for securities related claims. However, no assurances can be given that the covering insurers will not attempt to dispute the validity, applicability, or amount of coverage without expensive litigation against these insurers, in which case the Company may incur substantial liabilities as a result of these indemnification obligations.

Third-Party Payer Reimbursement Audits

From time to time, the Company receives recoupment requests from third-party payers for alleged overpayments. The Company disagrees with the contentions of pending requests and/or has recorded an estimated reserve for the alleged overpayments.

Contractual Commitments

The following table sets forth the material contractual commitments as of June 30, 2022 with a remaining term of at least one year:

Party	Commitments	Expiry Date
	(in thousands)	
Laboratory instruments supplier	$ 16,900	December 2024
Material suppliers	23,232	June 2026
Application service providers	34,126	March 2026
Earnouts for development with acquired Canadian entity (1)	16,218	September 2023
Software development provider	352	December 2024
Leases (2)	19,422	March 2033
Other material suppliers	23,766	Various
Total	$ 134,016	

(1) Represents the earnouts for asset development with the acquired Canadian entity consisting of three milestones which are achieved upon the satisfaction of certain contractual conditions less the portion accrued on the Company's Condensed Consolidated Balance Sheet. Upon achievement, the earnout consideration will primarily be paid in the Company's common stock.

(2) Represents executed leases which have not commenced. Please refer to Note 7, *Leases*, for additional information.

9. Stock-Based Compensation

2015 Equity Incentive Plan

General. The Company's board of directors adopted its 2015 Equity Incentive Plan (the "2015 Plan") in June 2015. The 2015 Plan replaced all of its prior stock plans.

Share Reserve. The initial number of shares of the Company's common stock available for issuance under the 2015 Plan was 3,451,495 shares. The number of shares reserved for issuance under the 2015 Plan will be increased automatically on the first business day of each fiscal year, commencing in 2016, by a number equal to the smallest of:

- 3,500,000 shares;
- 4% of the shares of common stock outstanding on the last business day of the prior fiscal year; or
- the number of shares determined by the Company's board of directors.

Stock options vest as determined by the compensation committee. In general, they will vest over a four-year period following the date of grant. Stock options expire at the time determined by the compensation committee but in no event more than ten years after they are granted. These awards generally expire earlier if the participant's service terminates earlier.

Restricted Shares and Stock Units. Restricted shares and stock units ("RSUs") may be awarded under the 2015 Plan in return for any lawful consideration, and participants who receive restricted shares or stock units generally are not required to pay cash for their awards. In general, these awards will be subject to vesting. Vesting may be based on length of service, the attainment of performance-based milestones or a combination of both, as determined by the compensation committee.

Employee Stock Purchase Plan

During the period ended June 30, 2022, there have not been any changes to the Company's 2015 Natera, Inc. Employee Stock Purchase Plan (the "ESPP") as disclosed in Form 10-K for the fiscal year ended December 31, 2021. The Company has made 3,455,128 shares available for issuance under the Plan as of June 30, 2022, a number that is automatically increased on the first business day of each fiscal year of the Company during the term of the ESPP by the least of (i) 1% of the total number of shares of common stock actually issued and outstanding on the last business day of the prior fiscal year, (ii) 880,000 shares of common stock (subject to the ESPP), or (iii) a number of shares of common stock determined by the Company's board of directors.

The first offering period of 2022 started on November 1, 2021 and ended on April 30, 2022, and 284,583 shares were purchased for proceeds of $8.5 million. The second offering period of 2022 began on May 1, 2022 and will end on October 31, 2022. As of June 30, 2022, no shares have been purchased in the second offering period.

Stock Options and Restricted Stock Units

The following table summarizes option and RSU activity for the six months ended June 30, 2022:

		Outstanding Options and RSUs			
(in thousands, except for contractual life and exercise price)	Shares Available for Grant	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
				(in years)	
Balance at December 31, 2021	4,319	5,900	$ 17.54	5.40	$ 451,505
Additional shares authorized	3,500	—			
Options granted	(264)	264	$ 61.49		
Options exercised	—	(701)	$ 6.53		
Options forfeited/cancelled	28	(28)	$ 36.77		
RSUs granted	(4,698)	—			
RSUs forfeited/cancelled	308	—			
Balance at June 30, 2022	3,193	5,435	$ 21.00	5.39	$ 112,272
Exercisable at June 30, 2022		4,550	$ 12.00	4.79	$ 108,487
Vested and expected to vest at June 30, 2022		5,380	$ 20.55	5.36	$ 112,049

Performance-based Awards

The Company grants certain senior-level executives performance stock options and units which vest based on either market and time-based service conditions or performance and time-based service conditions, which are referred to herein as performance-based awards. The Company assessed the performance-based awards with the appropriate valuation method and has recognized the applicable stock-based compensation expense. The following table summarizes the outstanding performance-based awards as of June 30, 2022:

Period Granted	Options Granted	RSUs Granted	Options Vested	RSUs Vested	Milestone	Valuation Method
			(in thousands)			
Q1 2019	200	300	200	300	(1)	Monte-Carlo Simulation
Q2 2019	—	188	—	140	(2)	Grant Date Stock Price
Q3 2019	—	50	—	50	(1)	Monte-Carlo Simulation
Q1 2020	150	300	150	300	(1)	Monte-Carlo Simulation
Q1 2020	—	436	—	408	(3)	Grant Date Stock Price
Q1 2020	129	—	129	—	(3)	Black-Scholes-Merton
Q2 2020	—	21	—	21	(3)	Grant Date Stock Price
Q3 2020	10	—	10	—	(4)	Black-Scholes-Merton
Q3 2020	—	27	—	17	(3)	Grant Date Stock Price
Q4 2020	—	32	—	19	(1)	Monte-Carlo Simulation
Q4 2020	—	22	—	2	(5)	Grant Date Stock Price
Q1 2021	150	125	—	—	(1)	Monte-Carlo Simulation
Q1 2021	—	279	—	15	(3)	Grant Date Stock Price
Q2 2021	163	—	—	—	(1)	Monte-Carlo Simulation
Q2 2021	29	—	—	—	(3)	Black-Scholes-Merton
Q2 2021	—	7	—	2	(3)	Grant Date Stock Price
Q4 2021	—	20	—	—	(1)	Monte-Carlo Simulation
Q4 2021	—	205	—	3	(3)	Grant Date Stock Price
Q1 2022	110	—	—	—	(3)	Black-Scholes-Merton
Q1 2022	—	849	—	—	(3)	Grant Date Stock Price
Q2 2022	—	103	—	—	(3)	Grant Date Stock Price

(1) The awards will vest based on the achievement of certain values of the Company's common stock at multiple thresholds within certain periods and are contingent upon the completion of requisite service through the date of such vesting.

(2) The vesting of the awards will be triggered after the end of the achievement milestone, as measured by the Company.

(3) The awards vest based on achievement of certain revenue targets, units, and system implementation, contingent upon the completion of requisite service through the date of such vesting.

(4) The awards have vested based on a change of coverage.

(5) The awards will vest based on achievement of certain revenue and recruiting targets.

The Company has recognized $14.1 million and $27.5 million in stock-based compensation for performance-based awards for the three and six months ended June 30, 2022. The Company has recognized $19.0 million and $30.0 million in stock-based compensation for performance-based awards for the three and six months ended June 30, 2021.

There were no performance-based awards with market conditions and a fair value estimated using a Monte Carlo simulation model granted in the six months ended June 30, 2022

Restricted Stock Units

The following table summarizes unvested RSU for the six months ended June 30, 2022:

(in thousands, except for grant date fair value)	Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2021	3,988	$ 74.33
Granted	4,698	$ 43.60
Vested	(777)	$ 56.05
Cancelled/forfeited	(308)	$ 59.83
Balance at June 30, 2022	7,601	$ 58.05

Stock-Based Compensation Expense

Stock based compensation is related to stock options and RSUs granted to the Company's employees and is measured at the grant date based on the fair value of the award. The fair value is recognized as expense over the requisite service period, which is generally the vesting period of the respective awards on a straight-line basis. If awards have both a service condition and performance or market condition, then an accelerated expense method is used. No compensation cost is recognized when the requisite service has not been met and the awards are therefore forfeited.

Employee stock-based compensation expense was calculated based on awards ultimately expected to vest and has been reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods, if actual forfeitures differ from those estimates. Non-employee stock-based compensation expense was not adjusted for estimated forfeitures up until the occurrence of the actual forfeiture of the associated awards.

The following tables present the effect of employee and non-employee stock-based compensation expense on selected statements of operations line items for the three and six months ended June 30, 2022 and 2021.

	Three months ended June 30,					
	2022			2021		
	Employee	Non-Employee	Total	Employee	Non-Employee	Total
	(in thousands)					
Cost of revenues	$ 2,063	$ —	$ 2,063	$ 1,275	$ —	$ 1,275
Research and development	11,938	520	12,458	6,276	340	6,616
Selling, general and administrative	26,296	156	26,452	27,146	66	27,212
Total	$ 40,297	$ 676	$ 40,973	$ 34,697	$ 406	$ 35,103

	Six months ended June 30,					
	2022			2021		
	Employee	Non-Employee	Total	Employee	Non-Employee	Total
	(in thousands)					
Cost of revenues	$ 3,779	$ —	$ 3,779	$ 1,983	$ —	$ 1,983
Research and development	20,944	935	21,879	9,926	564	10,490
Selling, general and administrative	50,171	231	50,402	45,751	111	45,862

Total	$ 74,894	$ 1,166	$ 76,060	$ 57,660	$ 675	$ 58,335

As of June 30, 2022, approximately $344.5 million of unrecognized compensation expense, adjusted for estimated forfeitures, related to unvested option awards and RSUs will be recognized over a weighted-average period of approximately 2.8 years.

Valuation of Stock Option Grants to Employees and Non-employees

The Company utilizes the Black-Scholes option pricing model when estimating the fair value of stock options. For the three and six months ended June 30, 2022, the following valuation assumptions were applied on both the employee and non-employee options. In the same period of the prior year, the valuation assumptions as follows were only used for stock options granted to employees.

	Three months ended June 30,			Six months ended June 30,		
	2022		2021	2022		2021
Expected term (years)	10.00	5.11 — 10.00		5.12 — 10.00	5.11 — 10.00	
Expected volatility	56.15 % — 56.38 %	56.01 % — 63.30 %		55.91 % — 62.30 %	55.33 % — 63.30 %	
Expected dividend rate	0.00 %	0.00 %		0.00 %	0.00 %	
Risk-free interest rate	2.72 % — 2.74 %	0.81 % — 1.67 %		1.62 % — 2.74 %	0.81 % — 1.67 %	

As of June 30, 2022, total options outstanding include 28,053 shares of option awards that were granted to non-employees, of which all shares are vested. Stock-based compensation expense related to stock options granted to non-employees is recognized as the stock option is earned and the services are rendered. The Company believes that the estimated fair value of the stock options is more readily measurable than the fair value of the services rendered.

10. Debt

Credit Line Agreement

In September 2015, the Company entered into a credit line with UBS (the "Credit Line") providing for a $50.0 million revolving line of credit which was fully drawn down in 2016. The Credit Line was amended in July 2017 and bears interest at 30-day LIBOR plus 1.10%. The Credit Line is secured by a first priority lien and security interest in the Company's money market and marketable securities held in its managed investment account with UBS. UBS has the right to demand full or partial payment of the Credit Line obligations and terminate the Credit Line, in its discretion and without cause, at any time.

For both the three months ended June 30, 2022 and 2021, the Company recorded interest expense on the Credit Line of $0.2 million. For both the six months ended June 30, 2022 and 2021, the Company recorded interest expense on the Credit Line of $0.3 million. Interest payments on the Credit Line were made within the same periods. As of June 30, 2022 and December 31, 2021, the total principal amount outstanding with accrued interest was $50.1 million.

Convertible Notes

In April 2020, the Company issued $287.5 million aggregate principal amount of Convertible Notes due 2027 in a private placement offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The Convertible Notes are senior, unsecured obligations of the Company and bear interest at a rate of 2.25% per year, payable in cash semi-annually. The Convertible Notes mature in May 2027, unless earlier converted, repurchased or redeemed in accordance with their terms. Upon conversion, the Convertible Notes are convertible into cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election.

The Company received net proceeds from the Convertible Notes of $278.3 million, after deducting the initial purchasers' discounts and debt issuance costs. The Company used approximately $79.2 million of the net proceeds from the Convertible Notes offering to repay its obligations under the 2017 Term Loan with OrbiMed.

The holders of the Convertible Notes may convert all or a portion of their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding February 1, 2027 in multiples of $1,000 principal amount, under any the following circumstances:

- During any fiscal quarter commencing after March 31, 2020 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day.
- During the five business day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of Convertible Notes for each trading day of that five-day consecutive trading period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day.
- If the Company calls any or all of the Convertible Notes for redemption at any time prior to the close of business on the second business day prior to the redemption date.
- Upon the occurrence of certain distributions.
- Upon the occurrence of specified corporate transactions.

The Convertible Notes are convertible into shares of the Company's common stock, par value $0.0001 per share, at an initial conversion rate of 25.7785 shares of common stock per $1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately $38.79 per share of common stock, convertible to 7,411,704 shares of common stock. The conversion rate and corresponding conversion price are subject to adjustment upon the occurrence of certain events but will not be adjusted for any accrued or unpaid interest. The holders of the Convertible Notes who redeem their Convertible Notes in connection with a make-whole fundamental change are, under certain circumstances, entitled to an increase in the conversion rate. Additionally, in the event of a fundamental change, the holders of the Convertible Notes may require the Company to repurchase for cash all or a portion of their Convertible Notes at a price equal to 100% of the principal amount, plus any accrued and unpaid interest.

The Company may not redeem the Convertible Notes prior to May 2024, and no sinking fund is provided for the Convertible Notes. The Company may redeem for cash all or any portion of the Convertible Notes, at the Company's option, on or after May 2024, if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any 30 consecutive trading day period ending on the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will be equal to 100% of the principal amount of the Convertible Notes to be redeemed plus accrued and unpaid interest.

Upon adoption of ASU 2020-06, the Company allocated all of the debt discount to long-term debt. The debt discount is amortized to interest expense using the effective interest method, computed to be 2.72%, over the life of the Convertible Notes or approximately its seven-year term. The outstanding Convertible Notes balances as of June 30, 2022 and December 31, 2021 are summarized in the following table:

	June 30, 2022	December 31, 2021
	(in thousands)	
Long-Term Debt		
Outstanding Principal	$ 287,500	$ 287,500
Unamortized debt discount and issuance cost	(6,480)	(7,106)
Net carrying amount	$ 281,020	$ 280,394

The following tables present total interest expense recognized related to the Convertible Notes during the three and six months ended June 30, 2022 and 2021:

	Three months ended	
	June 30, 2022	June 30, 2021
	(in thousands)	
Cash interest expense		
Contractual interest expense	$ 1,617	$ 1,617
Non-cash interest expense		
Amortization of debt discount and debt issuance cost	312	306
Total interest expense	$ 1,929	$ 1,923

	Six months ended	
	June 30, 2022	June 30, 2021
	(in thousands)	
Cash interest expense		
Contractual interest expense	$ 3,234	$ 3,234
Non-cash interest expense		
Amortization of debt discount and debt issuance cost	625	610
Total interest expense	$ 3,860	$ 3,844

11. Income Taxes

During the three months ended June 30, 2022 and 2021, the Company recorded total income tax expense of approximately $193,000 and $242,000, respectively. During the six months ended June 30, 2022 and 2021, the Company recorded total income tax expense of approximately $372,000 and $376,000, respectively. The income tax expense is primarily attributable to state income tax and foreign income tax expenses resulting from testing to clinics and licenses of cloud-based software and intellectual property that are based in a foreign country. Due to the Company's history of cumulative operating losses, the Company concluded that, after considering all the available objective evidence, it is not more likely than not that all of the Company's net deferred tax assets will be realized. Accordingly, all of the Company's deferred tax assets, which includes net operating loss carryforwards and tax credits related primarily to research and development, continue to be subjected to a full valuation allowance as of June 30, 2022. The Company will continue to maintain a full valuation allowance until there is sufficient evidence to support recoverability of its deferred tax assets.

Interest and/or penalties related to income tax matters are recognized as a component of income tax expense. As of June 30, 2022 and December 31, 2021, there were no accrued interest and penalties related to uncertain tax positions.

12. Net Loss per Share

Basic net loss per share is computed by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding for the period, excluding shares subject to repurchase and without

consideration of potentially dilutive securities. Diluted net loss per share is computed by giving effect to all potentially dilutive common shares outstanding for the period. For purposes of this computation, outstanding common stock options, and restricted stock units are considered to be common share equivalents. Common share equivalents are excluded from the computation in periods in which they have an anti-dilutive effect, unless the consideration of any one of them gives a dilutive effect.

The Convertible Notes are not convertible by the holders as of June 30, 2022. Upon conversion, the Company has the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion. If converted, the principal value of the Convertible Notes would exceed the value based on contractual settlement provisions by $23.1 million as of June 30, 2022. Since the Company is in a net loss position in the periods presented, the shares which would be issued upon conversion of the Convertible Notes are excluded from the net loss per share calculation as it would have an antidilutive effect. As such, the 7.4 million shares underlying the conversion option of the Convertible Notes will not have an impact on the Company's diluted earnings per share. If converted, the Company does not intend to settle the obligation in cash.

The following table provides the basic and diluted net loss per share computations for three and six months ended June 30, 2022 and 2021.

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	2022	2021	2022	2021
Numerator:				
Net loss, basic and diluted	$ (145,151)	$ (116,026)	$ (283,746)	$ (179,879)
Denominator:				
Weighted-average number of shares used in computing net loss per share, basic and diluted	96,579	88,077	96,081	87,387
Net loss per share, basic and diluted	$ (1.50)	$ (1.32)	$ (2.95)	$ (2.06)

The following table shows total outstanding potentially dilutive shares excluded from the computation of diluted loss per share as their effect would be anti-dilutive, as of June 30, 2022 and 2021:

	June 30,	
	2022	2021
	(in thousands)	
Options to purchase common stock	5,435	6,284
Performance-based awards and restricted stock units	7,601	3,992
Employee stock purchase plan	112	31
Convertible Notes	7,411	7,411
Earnouts for development with acquired Canadian entity	931	—
Total	21,490	17,718

13. Subsequent Events

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this report. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission on February 25, 2022.

Overview

We are a diagnostics company with proprietary molecular and bioinformatics technology that we deploy to change the management of disease worldwide. We began in the women's health space, in which we develop and commercialize non- or minimally- invasive tests to evaluate risk for, and thereby enable early detection of, a wide range of genetic conditions, such as Down syndrome. Our technology is now also being proven in the oncology market, in which we are commercializing, among others, a personalized blood-based DNA test to detect molecular residual disease and monitor disease recurrence, as well as in the organ health market, with tests to assess organ transplant rejection. We seek to enable even wider adoption of our technology through Constellation, our global cloud-based distribution model. In addition to our direct sales force in the United States, we have a global network of over 100 laboratory and distribution partners, including many of the largest international laboratories.

We currently provide a comprehensive suite of products in women's health, as well as our oncology and organ health products, and our Constellation cloud-based platform. We generate a majority of our revenues from the sale of Panorama, our non-invasive prenatal test ("NIPT"), as well as Horizon, our Carrier Screening ("HCS") test. In addition to Panorama and Horizon, our product offerings in women's health include Spectrum Preimplantation Genetics, our Anora miscarriage test, and Vistara single-gene NIPT, as well as our Empower hereditary cancer screening test, which we also plan to offer to oncologists through our oncology sales channel. We also offer our Signatera molecular residual disease test for oncology applications, which we commercialize as a test run in our CLIA (as defined below) laboratory and offer on a research use only basis to research laboratories and pharmaceutical companies; and our Prospera organ transplant assessment tests.

We process tests in our laboratories certified under the Clinical Laboratory Improvement Amendments of 1988 ("CLIA") in Austin, Texas and San Carlos, California. A portion of our testing is performed by third-party laboratories. Our customers include independent laboratories, national and regional reference laboratories, medical centers and physician practices for our screening tests, and research laboratories and pharmaceutical companies. We market and sell our tests through our direct sales force and, for our women's health tests, through our laboratory distribution partners. We bill clinics, laboratory distribution partners, patients, pharmaceutical companies and insurance payers for the tests we perform. In cases where we bill laboratory distribution partners, our partners in turn bill clinics, patients and insurers. The majority of our revenue comes from insurers with whom we have in-network contracts. Such insurers reimburse us for our tests pursuant to our in-network contracts with them, based on positive coverage determinations, which means that the insurer has determined that the test in general is medically necessary for this category of patient.

In addition to offering tests to be performed at our laboratories, either directly or through our laboratory distribution partners, we also establish licensing arrangements with laboratories under Constellation, our cloud-based distribution model, whereby our laboratory licensees run the molecular workflows themselves and then access our bioinformatics algorithms through our cloud-based software. This cloud-based distribution model results in lower revenues and gross profit per test than cases in which we process a test ourselves; however, because we do not incur the costs of processing the tests, our costs per test under this model are also lower. We began entering into these licensing arrangements starting in the fourth quarter of 2015.

The principal focus of our commercial operations is to offer our tests through both our direct sales force and laboratory distribution partners, and our Constellation licensees under our cloud-based distribution model. The number of tests that we accession is a key indicator that we use to assess our business. A test is accessioned when we receive the test

at our laboratory, the relevant information about the test is entered into our computer system, and the test sample is routed into the appropriate workflow. This number is a subset of the number of tests that we process, which includes tests distributed through our Constellation licensees. The number of tests that we process is a key metric as it tracks overall volume growth, particularly as our laboratory partners may transition from sending samples to our laboratory to our cloud-based distribution model, as a result of which our tests accessioned would decrease but our tests processed would remain unchanged.

During the six months ended June 30, 2022, we processed approximately 989,200 tests, comprised of approximately 957,200 tests accessioned in our laboratory, compared to approximately 723,900 tests processed, comprised of approximately 694,900 tests accessioned in our laboratory, during the six months ended June 30, 2021. This increase in volume primarily represents continued commercial growth of Panorama and HCS, both as tests performed in our laboratory as well as through our Constellation software platform.

The percent of our revenues attributable to our U.S. direct sales force for the six months ended June 30, 2022 was 89%, a slight decrease compared to 90% for the six months ended June 30, 2021. The percent of our revenues attributable to U.S. laboratory distribution partners for the six months ended June 30, 2022 was 7%, an increase from 5% in the same period in the prior year. Our ability to increase our revenues and gross profit will depend on our ability to further penetrate the U.S. market with our direct sales force. The percent of our revenues attributable to international laboratory distribution partners and other international sales for the six months ended June 30, 2022 was 3%, down from 5% for the six months ended June 30, 2021, due primarily to the increase in US direct sales as a percentage of revenue.

For the six months ended June 30, 2022, total revenues were $392.3 million, compared to $294.3 million in the six months ended June 30, 2021. Revenues generated from testing accounted for $384.6 million, 98% of total revenues for the six months ended June 30, 2022, compared to $260.0 million representing 88% of total revenues for the six months ended June 30, 2021. For the six months ended June 30, 2022 and 2021, no customers exceeded 10% of the total revenues on an individual basis. Revenues from customers outside the United States were $13.2 million, representing approximately 3% of total revenues for the six months ended June 30, 2022. For the six months ended June 30, 2021, revenues from customers outside the United States were $14.6 million, representing approximately 5% total revenues. Most of our revenues have been denominated in U.S. dollars, though we generate some revenue in foreign currency, primarily denominated in Euros and Singapore Dollars.

Our net loss for the six months ended June 30, 2022 and 2021 were $283.7 million and $179.9 million, respectively. This included non-cash stock compensation expense of $76.1 million and $58.3 million for the six months ended June 30, 2022 and 2021, respectively. As of June 30, 2022, we had an accumulated deficit of $1.7 billion.

COVID-19 Impact

The COVID-19 pandemic has continued to present a global public health and economic challenge that has affected our business operations and the U.S. and other major economies and financial markets. We have modified our business practices in response to the spread of COVID-19 (including temporary closures of our offices, implementing remote work policies and practices, vaccination requirements, travel restrictions, and other measures as we have deemed necessary or appropriate from time to time), and incur additional operating costs, and we may take further actions from time to time as may be required by government authorities or that we determine are in the best interests of our employees, customers and business partners. Such actions could also impact our ability to fully integrate businesses we may acquire in the future. There is no certainty that such actions will be sufficient to mitigate the continuing risks posed by the virus or otherwise be satisfactory to government authorities. If significant portions of our workforce, and particularly our laboratory staff, are unable to work effectively, including due to illness, quarantines, social distancing, recruiting and retention difficulties, government actions, including the prospect of rising interest rates, inflationary pressure, and stock market volatility, or other restrictions in connection with the COVID-19 pandemic, our operations and financial results will be impacted.

The extent to which the COVID-19 pandemic will continue to impact our business, results of operations and financial condition will depend on future developments, which continue to remain highly uncertain and cannot be predicted, including, but not limited to, the continued duration and spread of the pandemic, including the contagiousness

of variants and their severity, the actions to contain the virus or address its impact, and whether, when and to what extent pre-pandemic economic and operating activities can resume. The COVID-19 pandemic could continue to limit the ability of our customers, suppliers and business partners to perform under their contracts with us, including third-party payers' ability to make timely payments to us during and following the pandemic. We may also experience a shortage of laboratory supplies and reagents or a suspension of services from other laboratories or third parties. We also increased our dependence on growing and maintaining a network of mobile phlebotomy specialists who can provide testing capabilities, as many consumers are unable to visit clinics, hospitals or other testing facilities as a result of the COVID-19 pandemic. Even after the COVID-19 pandemic has subsided, we may continue to experience an adverse impact to our business because of its global economic impact, including as a result of inflation and any recession that has occurred or may occur in the future.

Specifically, difficult macroeconomic conditions as a result of COVID-19, such as decreases in per capita income and level of disposable income, increased and prolonged unemployment, a decline in consumer confidence, as well as limited or significantly reduced points of access of our products, could have a material adverse effect on the demand for some of our products, such as our products targeted for the IVF market. Decreased demand for our tests, particularly in the United States, could negatively affect our overall financial performance. A significant portion of our revenue is concentrated in the United States, where the impact of COVID-19 has been significant, and the potential decrease in demand for our tests could have a disproportionately negative impact on our business and financial results.

In particular, while our test volumes and the average selling price of our tests collected from insurance payors in the six months ended June 30, 2022 have increased compared to the six months ended June 30, 2021, we cannot predict volatility of the volumes and selling prices of our tests that may result from the continued impact of the COVID-19 pandemic, and either or both of these metrics may fluctuate from period to period. Further, we cannot predict the potential nature, magnitude and duration of the effects of the COVID-19 pandemic on our business.

In response to the COVID-19 pandemic, we have implemented measures to protect the health of our employees and to support the functionality of our laboratories. We will continue to support and incur expenditures towards COVID-19 prevention and employee safety.

Since the World Health Organization declared the global outbreak of COVID-19 to be a pandemic in March 2020, we have operated in an uncertain and disruptive pandemic environment but to date we have successfully maintained our operational effectiveness, including the operation of financial reporting systems, internal control over financial reporting and disclosure controls and procedures. We continue to closely monitor the recent developments surrounding this pandemic and resurgences including, among other developments, local, state, national and global vaccination efforts and the potential impacts of variants.

Components of the Results of Operations

Revenues

We generate revenues from the sale of our tests, primarily from the sale of our Panorama and HCS tests. Our two primary distribution channels are our direct sales force and our laboratory partners. In cases where we promote our tests through our direct sales force, we generally bill directly to a patient, clinic or insurance carrier, or a combination of the insurance carrier and patient, for the fees.

Sales of our clinical tests are recorded as product revenues. Revenues recognized from tests processed through our Constellation model, from the Qiagen LC ("Qiagen"), BGI Genomics Co. Ltd., and Foundation Medicine, Inc. agreements (collectively the "Strategic Partnership Agreements") are reported in licensing and other revenues.

In cases where we sell our tests through our laboratory partners, the majority of our laboratory partners bill the patient, clinic or insurance carrier for the performance of our tests, and we are entitled to either a fixed price per test or a percentage of their collections.

Our ability to increase our revenues will depend on our ability to further penetrate the domestic and international markets and, in particular, generate sales through our direct sales force, develop and commercialize additional tests, obtain reimbursement from additional third-party payers and increase our reimbursement rate for tests performed. In particular, our financial performance depends on reimbursement for Panorama in the average risk population and for microdeletions. There has been a significant increase in the number of commercial third-party payers that cover the use of Panorama in the average risk population, representing approximately 95% of commercial covered lives in the United States, as well as an increasing number of state Medicaid payers expanding coverage to average risk pregnancies. Many third-party payers do not currently reimburse for microdeletions screening in part because there is currently limited published data on the performance of microdeletions screening tests. A new current procedure terminology ("CPT") code for microdeletions went into effect beginning January 1, 2017. We have experienced low average reimbursement rates thus far for microdeletions testing under this new code, and we expect that this new code will cause, at least in the near term, our microdeletions reimbursement to remain low, due to third-party payers declining to reimburse and through reduced reimbursement under the new code. This has had, and we expect it will continue to have, an adverse impact on our revenues. In addition, a new CPT code for expanded carrier screening went into effect beginning January 1, 2019, and has had, and may continue to have, an adverse effect on our reimbursement rates for our broader Horizon carrier screening panel for which we previously primarily received reimbursement on a per-condition basis, as those tests may be reimbursed as a combined single panel instead of as multiple individual tests. Because our revenues from Horizon continue to represent an increasing proportion of our overall revenues, a decline in our reimbursement rates for, and therefore our average selling price of, Horizon, could result in a decline in our overall revenue.

Our financial performance has also been impacted by the increase in in-network coverage of our tests by third-party payers, which we believe is crucial to our growth and long-term success. However, because the negotiated fees under our contracts with third-party payers are typically lower than the list price of our tests, as we enter into additional in-network contracts with insurance providers, our average reimbursement per test may decrease as compared to out-of-network contracts. While we expect the reduction in average reimbursement per test from in-network pricing to reduce our revenues and gross margins in the near term, in-network pricing is more predictable than out-of-network pricing, and we intend to continue to mitigate the impact by driving more business from our most profitable accounts.

Cost of Product Revenues

The components of our cost of product revenues are material and service costs, impairment charges associated with testing equipment, personnel costs, including stock-based compensation expense, equipment and infrastructure expenses associated with testing samples, electronic medical records, order and delivery systems, shipping charges to transport samples, costs incurred from third party test processing fees, and allocated overhead such as rent, information technology costs, equipment depreciation and utilities. Costs associated with Whole Exome Sequencing ("WES") are also included, as well as labor costs, relating to our Signatera CLIA and Signatera research use only offerings. Costs associated with performing tests are recorded when the test is accessioned. We expect cost of product revenues in absolute dollars to increase as the number of tests we perform increases.

As we continue to achieve scale, we have increased our focus on more efficient use of labor, automation, and DNA sequencing. For example, we updated the molecular and bioinformatics process for Panorama to further reduce the sequencing reagents, test steps and associated labor costs required to obtain a test result, while increasing the accuracy of the test to allow it to run with lower fetal fraction input. These improvements also reduced the frequency of the need to require blood redraws from the patient.

Cost of Licensing and Other Revenues

The components of our cost of licensing and other revenues are material costs associated with test kits sold to Constellation clients, development and support services relating to our Strategic Partnership Agreements, and costs associated with specimens and WES.

We currently have 15 revenue generating licensing and service agreements with laboratories under our Constellation distribution model. We consider our cost of licensing and other revenues for the Constellation software

platform to be relatively low, and therefore we expect its associated gross margin is higher. We expect our cost of licensing will increase in relation to volume growth.

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenue generated, and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We consider our critical accounting policies and estimates to be revenue recognition, leases, inventory, fair value measurements, and stock-based compensation.

There have been no material changes to our other critical accounting policies and estimates as compared to the disclosures in our Annual Report on Form 10-K for the year ended December 31, 2021.

Recent Accounting Pronouncements

We believe that the impact of accounting standards updates recently issued that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

Results of Operations

Comparison of the three months ended June 30, 2022 and 2021

	Three Months Ended June 30,		Change		
	2022	2021	Amount	Percent	
(in thousands except percentage)					
Revenues					
Product revenues	$ 194,582	$ 139,647	$ 54,935	39.3	%
Licensing and other revenues	3,618	2,379	1,239	52.1	
Total revenues	198,200	142,026	56,174	39.6	
Cost and expenses					
Cost of product revenues	108,756	75,527	33,229	44.0	
Cost of licensing and other revenues	481	585	(104)	(17.8)	
Research and development	82,580	53,752	28,828	53.6	
Selling, general and administrative	149,468	127,456	22,012	17.3	
Total cost and expenses	341,285	257,320	83,965	32.6	
Loss from operations	(143,085)	(115,294)	(27,791)	24.1	
Interest expense	(2,150)	(2,075)	(75)	3.6	
Interest and other income, net	277	1,585	(1,308)	(82.5)	
Loss before income taxes	(144,958)	(115,784)	(29,174)	25.2	
Income tax expense	(193)	(242)	49	(20.2)	
Net loss	$ (145,151)	$ (116,026)	$ (29,125)	25.1	%

Revenues

Total revenues are comprised of product revenues, which are primarily driven by sales of our Panorama and HCS tests, oncology testing, and licensing and other revenues, which primarily includes development licensing revenue and

licensing of our Constellation software. Total revenues increased by $56.2 million, or 39.6%, when compared to the three months ended June 30, 2021.

We derive our revenues from tests based on units reported to customers—tests delivered with a result. All reported units are either accessioned in our laboratory or processed outside of our laboratory. As noted in the section titled "Overview" above, the number of tests that we process is a key metric as it tracks overall volume growth. During the three months ended June 30, 2022, total reported units were approximately 461,300, comprised of approximately 446,400 tests reported in our laboratory. Comparatively, during the three months ended June 30, 2021, total reported units were approximately 355,700, comprising of approximately 342,500 tests reported in our laboratory.

Product Revenues

During the three months ended June 30, 2022, product revenues increased by $54.9 million, or 39.3% compared to the three months ended June 30, 2021, as a result of the continued revenue growth from test volumes.

Licensing and Other Revenues

Licensing and other revenues increased by $1.2 million, or 52.1%, during the three months ended June 30, 2022 when compared to the three months ended June 30, 2021. The increase was primarily due to revenue from our collaborative agreements.

Cost of Product Revenues

During the three months ended June 30, 2022, cost of product revenues increased compared to the three months ended June 30, 2021 by approximately $33.2 million, or 44.0%, due to a $15.0 million increase in third-party fees, higher costs related to inventory consumption of $5.1 million driven by an increase in accessioned tests, a $4.0 million increase in shipping related charges, and a $9.1 million increase in labor and overhead costs driven by headcount growth and product support.

Cost of Licensing and Other Revenues

Cost of licensing and other revenues for the three months ended June 30, 2022, when compared to the three months ended June 30, 2021, decreased by $0.1 million, or 17.8%, primarily due to labor efficiencies from our collaborative agreements.

Research and Development

Research and development expenses during the three months ended June 30, 2022, increased by $28.8 million, or 53.6%, when compared to the three months ended June 30, 2021. The increase was driven by a $16.9 million increase in salary and related compensation expenditures primarily due to headcount growth, which includes a $5.8 million increase in stock-based compensation expense. Additionally, a $10.5 million increase of costs related to clinical studies to support our new product offerings and future commercialization of our products, and a $2.4 million increase in facilities, software, office and other costs. This was offset by a decrease of $1.6 million in consulting costs.

Selling, General and Administrative

Selling, general and administrative expenses increased by $22.0 million, or 17.3%, during the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was attributable to an increase of $9.1 million in salary and related compensation expenditures primarily due to headcount growth, which includes a $0.6 million decrease in stock-based compensation expense due to timing of employee turnover. Additionally, there was a $0.6 million increase in marketing expenses, a $4.8 million increase in travel related costs, a $3.8 million increase in consulting and legal fees, a $1.3 million increase in hardware and software licenses, and a $2.4 million increase from business insurance and other administrative costs.

Interest Expense

Interest expense slightly increased in the three months ended June 30, 2022 compared to the same period in the prior year. The interest expense is primarily from our 2.25% Convertible Senior Notes (the "Convertible Notes") issued in April 2020.

Interest and Other Income

Interest and other income for the three months ended June 30, 2022 decreased $1.3 million compared to the same period in the prior year, primarily due to the sale and maturities of investments resulting in lower interest income as well as lower yields from our investments. Additionally, our sublease was terminated in the fourth quarter of 2021 resulting in no sublease rental income compared to 2021.

Comparison of the six months ended June 30, 2022 and 2021

	Six Months Ended June 30,		Change		
	2022	2021	Amount	Percent	
(in thousands except percentage)					
Revenues					
Product revenues	$ 384,584	$ 260,031	$ 124,553	47.9	%
Licensing and other revenues	7,749	34,311	(26,562)	(77.4)	
Total revenues	392,333	294,342	97,991	33.3	
Cost and expenses					
Cost of product revenues	211,426	141,359	70,067	49.6	
Cost of licensing and other revenues	1,026	1,566	(540)	(34.5)	
Research and development	162,994	93,940	69,054	73.5	
Selling, general and administrative	297,102	235,788	61,314	26.0	
Total cost and expenses	672,548	472,653	199,895	42.3	
Loss from operations	(280,215)	(178,311)	(101,904)	57.1	
Interest expense	(4,237)	(4,148)	(89)	2.1	
Interest and other income, net	1,078	2,956	(1,878)	(63.5)	
Loss before income taxes	(283,374)	(179,503)	(103,871)	57.9	
Income tax expense	(372)	(376)	4	(1.1)	
Net loss	$ (283,746)	$ (179,879)	$ (103,867)	57.7	%

Revenues

Total revenues are comprised of product revenues, which are primarily driven by sales of our Panorama and HCS tests, oncology testing, and licensing and other revenues, which primarily includes development licensing revenue and licensing of our Constellation software. Total revenues increased by $98.0 million, or 33.3%, when compared to the six months ended June 30, 2021.

We derive our revenues from tests based on units reported to customers—tests delivered with a result. All reported units are either accessioned in our laboratory or processed outside of our laboratory. As noted in the section titled "Overview" above, the number of tests that we process is a key metric as it tracks overall volume growth. During the six months ended June 30, 2022, total reported units were approximately 917,400, comprised of approximately 887,300 tests reported in our laboratory. Comparatively, during the six months ended June 30, 2021, total reported units were approximately 669,500 comprising of approximately 642,400 tests reported in our laboratory.

Product Revenues

During the six months ended June 30, 2022, product revenues increased by $124.6 million, or 47.9%, compared to the six months ended June 30, 2021, as a result of the continued revenue growth from test volumes.

Licensing and Other Revenues

Licensing and other revenues decreased by $26.6 million, or 77.4%, during the six months ended June 30, 2022 when compared to the six months ended June 30, 2021. The decrease in revenue was primarily due to $28.6 million of revenue recognized from Qiagen associated with deferred revenues recognized as a result from a settlement with Qiagen in prior year partially offset by a $2.0 million increase in revenue from our collaborative agreements.

Cost of Product Revenues

During the six months ended June 30, 2022, cost of product revenues increased compared to the six months ended June 30, 2021 by approximately $70.1 million, or 49.6%, due to a $33.7 million increase in third-party fees, higher costs related to inventory consumption of $10.8 million driven by an increase in accessioned tests, a $6.5 million increase in shipping related charges, and a $19.1 million increase in labor and overhead costs driven by headcount growth and product support.

Cost of Licensing and Other Revenues

Cost of licensing and other revenues for the six months ended June 30, 2022, when compared to the six months ended June 30, 2021, decreased by $0.5 million, or 34.5%, primarily due to labor efficiencies from our collaborative agreements.

Research and Development

Research and development expenses during the six months ended June 30, 2022, increased by $69.1 million, or 73.5%, when compared to the six months ended June 30, 2021. The increase was driven by a $36.8 million increase in salary and related compensation expenditures primarily due to headcount growth, which includes a $11.4 million increase in stock-based compensation expense. Additionally, there was an increase of $1.3 million in consulting costs, a $26.1 million increase of costs related to clinical studies to support our new product offerings and future commercialization of our products, and a $4.9 million increase in facilities, software, office, and other costs.

Selling, General and Administrative

Selling, general and administrative expenses increased by $61.3 million, or 26.0%, during the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was attributable to an increase of $35.2 million in salary and related compensation expenditures primarily due to headcount growth, which includes a $4.6 million increase in stock-based compensation expense. Additionally, there was a $3.3 million increase in marketing expenses, a $8.0 million increase in travel related costs, a $7.6 million increase in consulting and legal fees, a $1.1 million increase in hardware and software licenses, and a $6.1 million increase from business insurance and other administrative costs.

Interest Expense

Interest expense increased slightly in the six months ended June 30, 2022 compared to the same period in the prior year. The interest expense is primarily from the Convertible Notes issued in April 2020.

Interest and Other Income

Interest and other income for the six months ended June 30, 2022 decreased $1.9 million compared to the same period in the prior year, primarily due to the sale and maturities of investments resulting in lower interest income as well as lower yields from our investments.

Liquidity and Capital Resources

We have incurred net losses each year since our inception. For the six months ended June 30, 2022, we had a net loss of $283.7 million, and we expect to continue to incur losses in future periods as we continue to devote a substantial portion of our resources to our research and development and commercialization efforts for our existing and new products. As of June 30, 2022, we had an accumulated deficit of $1.7 billion. We had $91.4 million in cash and cash equivalents and restricted cash, $547.4 million in marketable securities, $50.1 million of outstanding balance of the Credit Line including accrued interest, and $287.5 million outstanding principal balance on the Convertible Notes.

While we have introduced multiple products that are generating revenues, these revenues have not been sufficient to fund all operations. Accordingly, we have funded the portion of operating costs that exceeds revenues through a combination of equity issuances and debt and other financings. We expect to develop and commercialize future products and continue to invest in the growth of our business and, consequently, we will need to generate additional revenues to achieve future profitability and may need to raise additional equity or incur additional debt. If we raise additional funds by issuing equity securities, our stockholders would experience dilution. Additional debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any additional debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders and requires significant debt service payments, which diverts resources from other activities. Additional financing may not be available at all, or in amounts or on terms acceptable to us. If we are unable to obtain additional financing, we may be required to delay the development and commercialization of our products and significantly scale back our business and operations.

In July 2021, the Company completed an underwritten equity offering and sold 5,175,000 shares of its common stock at a price of $113 per share to the public. Before estimated offering expenses of $0.4 million, the Company received proceeds of approximately $551.2 million net of the underwriting discount.

Refer to additional disclosures associated with risks and our ability to generate and obtain adequate amounts of cash to meet capital requirements for both short-term and long-term obligations.

Based on our current business plan, we believe that our existing cash and marketable securities will be sufficient to meet our anticipated cash requirements for at least 12 months after August 4, 2022.

Credit Line Agreement

In September 2015, we entered into a Credit Line with UBS (“the Credit Line”) providing for a $50.0 million revolving line of credit which could be drawn in increments at any time. The Credit Line was amended in July 2017 and bears interest at 30-day LIBOR plus 1.10%, and it is secured by a first priority lien and security interest in our money market and marketable securities held in our managed investment account with UBS. UBS has the right to demand full or partial payment of the Credit Line obligations and terminate it, in its discretion and without cause, at any time. As of June 30, 2022, the total principal amount outstanding with accrued interest was $50.1 million.

Convertible Notes

In April 2020, we issued $287.5 million aggregate principal amount of Convertible Notes in a private placement offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

The Convertible Notes are senior, unsecured obligations of the Company and bear interest at a rate of 2.25% per year, payable in cash semi-annually in arrears in May and November of each year, beginning in November 2020. The Convertible Notes mature in May 2027, unless earlier converted, repurchased or redeemed in accordance with their terms. Upon conversion, the Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

We received net proceeds from the Convertible Notes of $278.3 million, after deducting the initial purchasers’ discounts and debt issuance costs. We used approximately $79.2 million of the net proceeds from the Convertible Notes offering to repay our obligations under our 2017 Term Loan with OrbiMed.

Cash Flows

The following table summarizes our condensed consolidated cash flows for the periods indicated:

	Six Months Ended June 30,	
	2022	2021
(in thousands)		
Cash used in operating activities	$ (248,126)	$ (145,439)
Cash provided by investing activities	241,822	146,709
Cash provided by financing activities	13,074	12,914
Net increase in cash, cash equivalents and restricted cash	6,770	14,184
Cash, cash equivalents and restricted cash, beginning of period	84,614	48,855
Cash, cash equivalents and restricted cash, end of period	$ 91,384	$ 63,039

Cash Used in Operating Activities

Cash used in operating activities during the six months ended June 30, 2022 was $248.1 million. The net loss of $283.7 million includes $95.9 million in non-cash charges resulting from $7.6 million of depreciation and amortization, $3.0 million premium amortization and discount accretion on investment securities, $76.1 million of stock-based compensation expense, $6.7 million of non-cash lease expense, $0.6 million for amortization of debt discount and issuance cost, $0.2 million of inventory reserve adjustments, $1.5 million of provision for credit losses, and $0.2 million for realized loss from sales of investments. Operating assets had cash outflows of $86.7 million resulting from a $87.7 million increase in accounts receivable, a $3.7 million increase in inventory, offset by a $4.7 million decrease in prepaid expenses and other assets. Operating liabilities resulted in cash inflows of $26.4 million resulting from a $29.5 million increase in other accrued liabilities, a $8.0 million increase in deferred revenue, and a $2.5 million increase in accounts payable, offset by a $8.1 million decrease in accrued compensation and a $5.5 million decrease in lease liabilities.

Cash used in operating activities during the six months ended June 30, 2021 was $145.4 million. The net loss of $179.9 million includes $74.1 million in non-cash charges resulting from $5.3 million of depreciation and amortization, $3.8 million premium amortization and discount accretion on investment securities, $58.3 million of stock-based compensation expense, $5.4 million of non-cash lease expense, $0.6 million for amortization of debt discount and issuance cost, $0.6 million of inventory reserve adjustments, and $0.1 million of other non-cash charges. Operating assets had cash outflows of $38.1 million resulting from $21.6 million in increases in accounts receivable, $9.0 million in increases in inventory, and $7.5 million in increases in prepaid expenses and other current assets. Operating liabilities resulted in cash outflows of $1.5 million resulting from a $38.7 million decrease in deferred revenue offset by a $12.3 million increase in accounts payable, $0.5 million increase in accrued compensation and a $24.4 million increase in other accrued liabilities.

Cash Used in Investing Activities

Cash provided by investing activities for the six months ended June 30, 2022 totaled $241.8 million, which was comprised of $191.9 million from proceeds from sale of investments, $153.5 million from proceeds of investments maturities, offset by $80.0 million in purchasing of new investments, and $23.6 million in acquisitions of property, plant and equipment.

Cash provided by investing activities for the six months ended June 30, 2021 totaled $146.7 million, which was comprised of $205.5 million from proceeds from investment maturities and $31.1 million from proceeds from sale of investments, which was offset by $71.0 million in purchasing of new investments and $18.9 million in acquisitions of property, plant and equipment.

Cash Provided by Financing Activities

Cash provided by financing activities for the six months ended June 30, 2022, totaled $13.1 million which was comprised of $4.6 million of proceeds from the exercise of stock options and $8.5 million from issuance of common stock under the employee stock purchase plan.

Cash provided by financing activities for the six months ended June 30, 2021 totaled $12.9 million which was comprised of $6.8 million of proceeds from the exercise of stock options and $6.1 million from issuance of common stock under the employee stock purchase plan.

Contractual Obligations and Other Commitments

We have entered into arrangements that contractually obligate us to make payments that will affect our liquidity and cash flows in future periods. Such arrangements include those related to our lease commitments, Credit Line, Convertible Notes, commercial supply agreements and other agreements.

Operating leases

Our lease commitments consist of $19.4 million of payments, which will be paid over the term of the lease, consisting of the "Second Expansion Premises" from the lease amendment for the laboratory and office space in Austin, Texas. The lease for the Second Premises has not commenced under Accounting Standards Codification (ASC) Topic 842, *Leases* (ASC 842), as of March 31, 2022. As a result, the lease is not reflected within the consolidated balance sheets. We expect the leases to commence in September 2022 and expire in March 2033. For additional information on our leases and timing of future payments, please refer to Note 7, *Leases*.

Credit Line

The short-term debt obligations consist of the $49.0 million principal amount drawn from the UBS Credit Line and applicable interest. The Credit Line was amended in July 2017 and bears interest at 30-day LIBOR plus 1.10%, and it is secured by a first priority lien and security interest in our money market and marketable securities held in our managed investment account with UBS. UBS has the right to demand full or partial payment of the Credit Line obligations and terminate it, in its discretion and without cause, at any time. Please refer to Note 10, *Debt*, for further details.

Convertible Notes

The long-term debt obligations consist of the $287.5 million principal amount from a private placement offering to qualified institutional buyers and applicable interest. The Convertible Notes are senior, unsecured obligations of the Company and bear interest at a rate of 2.25% per year, payable in cash semi-annually in arrears in May and November of each year, beginning in November 2020. The Convertible Notes mature in May 2027, unless earlier converted, repurchased or redeemed in accordance with their terms. Upon conversion, the Convertible Notes are convertible into cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. Please refer to Note 10, *Debt*, for further details.

Inventory purchase and other contractual obligations

We enter into contracts in the normal course of business with various third parties for clinical trials, preclinical research studies, testing, manufacturing, and other services for operational purposes. The contractual obligations also include the potential earnout payment from our IPR&D asset acquisition less the portion accrued on the Balance Sheet. Payments due upon cancellation generally consist only of payments for services provided or expenses incurred, including non-cancellable obligations of our service providers, up to the date of cancellation. These payments have not been included separately within these contractual and other obligations disclosures. Please refer to Note 8, *Commitments and Contingencies*, for further details.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements during the periods presented.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risks in the ordinary course of our business. These risks primarily relate to interest rates. Our Credit Line has an interest rate of one-month LIBOR plus 1.10%. The LIBOR rate is variable. An incremental change in the borrowing rate of 100 basis points would increase our annual interest expense by $0.5 million based on our $50.1 million gross debt outstanding on our Credit Line, including principal and accrued interest as of June 30, 2022. The interest rate for our Convertible Notes is fixed at 2.25% and not exposed market risk related to interest rates. Our investment portfolio is exposed to market risk from changes in interest rates. This risk is mitigated as we have maintained a relatively short average maturity for our investment portfolio. An incremental change in the investment yield of 100 basis points would increase our annual interest income by approximately $5.5 million annually in relation to amounts we would expect to earn, based on our short-term investments as of June 30, 2022.

Foreign Currency Exchange Rate Fluctuations

Our operations are currently conducted primarily in the United States. As we expand internationally, our results of operations and cash flows may become subject to fluctuations due to changes in foreign currency exchange rates. In periods when the U.S. dollar declines in value as compared to the foreign currencies in which we incur expenses, our foreign currency-based expenses will increase when translated into U.S. dollars. In addition, future fluctuations in the value of the U.S. dollar may affect the price at which we sell our tests outside the United States. To date, our foreign currency risk has been minimal and we have not historically hedged our foreign currency risk; however, we may consider doing so in the future.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2022. The term "disclosure controls and procedures," as defined in Rule 13a-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on the evaluation of our disclosure controls and procedures as of June 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the period ended June 30, 2022, we have substantially completed the implementation of a new Enterprise Resource Planning ("ERP") software system. Accordingly, we have modified certain existing internal control processes relating to the implementation of the new ERP system. There have been no additional changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in legal proceedings. The results of such legal proceedings and claims cannot be predicted with certainty, and regardless of the outcome, legal proceedings could have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors.

For information regarding certain current legal proceedings, see “Note 8—Commitments and Contingencies—Legal Proceedings” in the Notes to Unaudited Interim Condensed Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. In addition to the information set forth in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, you should consider carefully the factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission on February 25, 2022. The occurrence of any of the risks and uncertainties described in such Annual Report could materially and adversely affect our business, financial condition, results of operations and prospects. In that event, the price of our common stock could decline and you could lose part or all of your investment. Furthermore, such risks are not the only ones we face; additional risks and uncertainties not currently known or that we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) *Recent Sales of Unregistered Securities*

None.

(b) *Use of Proceeds*

Not applicable.

(c) *Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

None.

ITEM 6 EXHIBITS

INDEX TO EXHIBITS

		Incorporated by Reference				
Exhibit No.	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
10.1*	Amended Employment Agreement, by and between Registrant and Daniel Rabinowitz, dated June 7, 2007.					X

		Incorporated by Reference				
Exhibit No.	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1†	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2†	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.					X

		Incorporated by Reference				
Exhibit No.	**Description**	**Form**	**File No.**	**Exhibit**	**Filing Date**	**Filed Herewith**
Exhibit 104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					X

* Indicates a management contract or compensatory plan.

† The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the SEC and are not to be incorporated by reference into any filing of Natera, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, regardless of any general incorporation language contained in any filing.

SIGNATURES

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

NATERA, INC.

Date: August 4, 2022

By: / s / *Steve Chapman*
Name: **Steve Chapman**
Title: **Chief Executive Officer, President, and Director**
(Principal Executive Officer)

By: / s / *Michael Brophy*
Name: **Michael Brophy**
Title: **Chief Financial Officer**
(Principal Financial and Accounting Officer)

Exhibit 10.1

AMENDED EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into as of June 7, 2007, by and between DANIEL RABINOWITZ (the "Employee") and **GENE SECURITY NETWORK, INC.**, a Delaware corporation (the "Company").

THIS AGREEMENT amends and restates in its entirety the Employment Agreement entered into between the parties hereto on January 27, 2007.

1. Duties and Scope of Employment.

(a) **Position**. For the term of his employment under this Agreement (the "Employment"), the Company agrees to employ the Employee in the position of General Counsel and Corporate Secretary. The Employee shall report to the Company's Chief Executive Officer or to such other person as the Company subsequently may determine. The Employee's duties shall be to perform the role of corporate secretary and general counsel of the Company.

(b) **Obligations to the Company**. During his Employment, the Employee shall be a part-time employee working initially at least two days per week for the Company, subject to increase by mutual agreement between the parties. The Employee shall comply with the Company's policies and rules, as they may be in effect from time to time during his Employment.

(c) **No Conflicting Obligations**. The Employee represents and warrants to the Company that he is under no obligations or commitments, whether contractual or otherwise , that are inconsistent with his obligations under this Agreement. The Employee represents and warrants that he will not use or disclose, in connection with his Employment, any trade secrets or other proprietary information or intellectual property in which the Employee or any other person has any right, title or interest and that his Employment will not infringe or violate the rights of any other person. The Employee represents and warrants to the Company that he has returned all property and confidential information belonging to any prior employer.

(d) **Commencement Date**. The Employee previously commenced part-time Employment; the terms of this Amended Employment Agreement shall become effective as soon as reasonably practicable and in no event later than June 7, 2007.

(e) **Proprietary Information and Inventions Agreement**. The Employee has entered into a Proprietary Information and Inventions Agreement with the Company, substantially in the form attached hereto as **EXHIBIT A**.

2. **Cash and Incentive Compensation**.

(a) **Salary.** The Company shall pay the Employee as compensation for his services a base salary at a gross annual rate of not less than $150,000 (One Hundred and Fifty Thousand Dollars), pro rated for the number of days per week actually worked for the Company as described in Section 1(b) above. Such salary shall be payable in accordance with the Company's standard payroll procedures. (The annual compensation specified in this Subsection (a), together with any increases in such compensation that the Company may grant from time to time, is referred to in this Agreement as "Base Salary.")

(b) **Incentive Bonuses.** The Employee shall be eligible to be considered for an annual incentive bonus. Such bonus (if any) shall be awarded based on objective or subjective criteria established in advance by the Company's Board of Directors (the "Board") or the Compensation Committee of the Board. The determinations of the Board or its Compensation Committee with respect to such bonus shall be final and binding. The Employee shall not be entitled to an incentive bonus if he is not employed by the Company on the date when such bonus is payable.

(c) **Stock Options.** Subject to the approval of the Board or the Compensation Committee of the Board, the Company shall grant the Employee stock options from time to time covering shares of the Company's Common Stock. The exercise price of such option shall be equal to the fair market value of such stock on the date of grant. The grant of such option shall be subject to the other terms and conditions set forth in the Gene Security Network, Inc. Stock Plan and in the Company's standard form of Stock Option Agreement.

3. **Vacation and Employee Benefits.** During his Employment, the Employee shall be eligible for paid vacations in accordance with the Company's vacation policy, as it may be amended from time to time. During his Employment, the Employee shall be eligible to participate in the employee benefit plans maintained by the Company, subject in each case to the generally applicable terms and conditions of the plan in question and to the determinations of any person or committee administering such plan.

4. **Business Expenses.** During his Employment, the Employee shall be authorized to incur necessary and reasonable travel, entertainment and other business expenses in connection with his duties hereunder. The Company shall reimburse the Employee for such expenses upon presentation of an itemized account and appropriate supporting documentation, all in accordance with the Company's generally applicable policies.

5. **Term of Employment.**

(a) **Termination of Employment.** The Company may terminate the Employee's Employment at any time and for any reason (or no reason), and with or without Cause, by giving the Employee notice in writing. The Employee may terminate his Employment at any time and for any reason (or no reason), by giving the Company notice in writing. The Employee's Employment shall terminate automatically in the event of his death. The Employee's Employment shall also terminate in the event of the Employee's Permanent Disability.

(b) **Employment at Will.** The Employee's Employment with the Company shall be "at will," meaning that either the Employee or the Company shall be entitled to terminate the Employee's Employment at any time and for any reason, with or without cause. Any contrary representations that may have been made to the Employee shall be superseded by this Agreement. This Agreement shall constitute the full and complete agreement between the Employee and the Company on the "at will" nature of the Employee's Employment, which may only be changed in an express written agreement signed by the Employee and a duly authorized officer of the Company.

(c) **Rights Upon Termination.** Except as expressly provided in Section 6 upon the termination of the Employee's Employment, the Employee shall only be entitled to the compensation, benefits and expense reimbursements that the Employee has earned under this Agreement before the effective date of the termination. The payments under this Agreement shall fully dis 1arge all responsibilities of the Company to the Employee.

(d) 6. **Termination Benefits**.

(a) **Severance Pay**. If, during the term of this Agreement, the Employee is subject to an Involuntary Termination, then the Company shall pay the Employee upon termination a lump sum equivalent to 6 months of the Base Salary, pro rated, as described in Section 1(b) above, for the average number of days per week actually worked for the Company over the six (6) months prior to the termination. If the Company determines that Employee is a "specified employee" under Section 409A(a)(2)(B)(i) of the Internal Revenue Code when his employment terminates, then (i) the salary continuation payments under this Subsection (a) will commence on the earliest practicable date that occurs more than six months after the termination of his employment and (ii) the installments that otherwise would have been paid during the first six months after the termination of his employment will be paid in a lump sum on the first day of the seventh month after the termination of his employment.

(b) **Vesting of Equity**. If, during the term of this Agreement, the Employee is subject to Involuntary Termination, then the Employee shall be vested in an additional fifty percent (50%) of the Employee's then unvested shares under any option or stock award previously granted to the Employee by the Company.

(c) **Rights Upon Change in Control**. In the event of a Change in Control, the Employee shall be vested in an additional 50% of the then unvested shares under any option or stock award previously granted to the Employee by the Company. The remaining unvested shares under any such option or stock award will vest over the shorter of 12 months or the remaining vesting period then applicable to such award at the time of the Change in Control. In the event that the Employee is subject, after a Change of Control, to Involuntary Termination pursuant to Section 6(e)(i), Section 6(e)(ii)(B) or 6(e)(ii)(C) of this Amended Employment Agreement, but not an Involuntary Termination pursuant to Section 6(e)(ii)(A) of this Amended Employment Agreement, then the Employee shall be full vested in all of Employee's outstanding equity awards. If this Subsection (c) applies, then Subsection (b shall not apply.

(d) **Health Insurance**. If Subsection (a) above applies, and if the Employ elects to continue his health insurance coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") following the termination of his Employment, then the Company shall pay the Employee's monthly premium under COBRA until the earliest of (i) 6 months after the Employee's cessation of employment, (ii) the expiration of the Employee's continuation coverage under COBRA or (iii) the date when the Employee receives substantially equivalent health insurance coverage in connection with new employment or self-employment.

(e) **Definition of "Involuntary Termination**." For all purposes under this Agreement, "Involuntary Termination" shall mean the termination of the Employee's Service by reason of:

(i) The involuntary discharge of the Employee by the Company (or the parent or subsidiary employing him) for reasons other than Cause or Permanent Disability; or

(ii) The voluntary resignation of the Employee following (A) a change in the Employee's position with the Company (or the parent or subsidiary employing him) that materially reduces his level of authority or responsibility without the Employee's consent, (B) a reduction in the Employee's Base Salary or (C) receipt of notice that the Employee's principal workplace will be relocated more than 30 miles.

(f) **Definition of "Cause."** For all purposes under this Agreement, "Cause" shall mean:

(i) The Employee's commission of, or plea of "guilty" or 'no contest" to, a felony under the laws of the United States or any state thereof;

(ii) Employee's committing an act of fraud in his dealings with the Company;

(iii) Abandonment or neglect of his duties by the Employee for an extended period of time;

(iv) Employee applies less than the requisite number of days of full time effort to the Company as described in Section 1(b) above; or

(v) Permanent Disability or death of the Employee.

(g) **Definition of "Change in Control."** For all purposes under this Agreement, "Change in Control" means (a) the consummation of a merger or consolidation of the Company with or into another entity or (b) the dissolution, liquidation or winding up of the Company. The foregoing notwithstanding, a merger or consolidation of the Company does not constitute a "Change in Control" if immediately after the merger or consolidation a majority of the voting power of the capital stock of the continuing or surviving entity, or any direct or indirect parent corporation of the continuing or surviving entity, will be owned by the persons who were the Company's stockholders immediately prior to such merger or consolidation in substantially the same proportions as their ownership of the voting power of the Company's capital stock immediately prior to the merger or consolidation.

(h) **Definition of "Permanent Disability."** For all purposes under this Agreement, "Permanent Disability" shall mean the Employee's inability to perform the essential functions of the Employee's position, with or without reasonable accommodation, for a period of at least 120 consecutive days because of a physical or mental impairment.

7. **Successors**.

(a) **Company's Successors**. This Agreement shall be binding upon any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets. For all purposes under this Agreement, the term "Company" shall include any successor to the Company's business and/or assets which becomes bound by this Agreement.

(b) **Employee's Successors**. This Agreement and all rights of the Employee hereunder shall inure to the benefit of, and be enforceable by, the Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

8. **Miscellaneous Provisions**.

(a) **Notice**. Notices and all other communications contemplated by this A:greement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Employee, mailed notices shall be addressed to him at the home address that he most recently

communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(b) **Modifications and Waivers**. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing by the Employee and by an officer of the Company authorized by the Company's Board of Directors No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) **Whole Agreement**. No other agreements, representations or understandings (whether oral or written and whether express or implied) which are not expressly set forth in this Agreement have been made or entered into by either party with respect to the subject matter hereof. This Agreement contains the entire understanding of the parties with respect to the subject matter hereof.

(d) **Withholding Taxes**. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(e) **Choice of Law and Severability**. This Agreement shall be interpreted in accordance with the laws of the State of California (except their provisions governing the choice of law). If any provision of this Agreement becomes or is deemed invalid, illegal or unenforceable in any applicable jurisdiction by reason of the scope, extent or duration of its coverage, then such provision shall be deemed amended to the minimum extent necessary to conform to applicable law so as to be valid and enforceable or, if such provision cannot be so amended without materially altering the intention of the parties, then such provision shall be stricken and the remainder of this Agreement shall continue in full force and effect. If any provision of this Agreement is rendered illegal by any present or future statute, law, ordinance or regulation (collectively the "Law"), then such provision shall be curtailed or limited only to the minimum extent necessary to bring such provision into compliance with the Law. All the other terms and provisions of this Agreement shall continue in full force and effect without impairment or limitation.

(f) **No Assignment**. This Agreement and all rights and obligations of the Employee hereunder are personal to the Employee and may not be transferred or assigned by the Employee at any time. The Company may assign its rights under this Agreement to any entity that assumes the Company's obligations hereunder in connection with any sale or transfer of all or a substantial portion of the Company's assets to such entity.

(g) **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

/s/ Daniel Rabinowitz

EMPLOYEE

GENE SECURITY NETWORK, INC.

/s/ Matthew Rabinowitz

By

Title: President and CEO

EXHIBIT A

Proprietary Information and Inventions Agreement

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steve Chapman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2022 of Natera, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

By: */s/ Steve Chapman*
Name: **Steve Chapman**
Title: **Chief Executive Officer and President**
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER
PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Brophy, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2022 of Natera, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2022

By: */ s / Michael Brophy*
Name: **Michael Brophy**
Title: **Chief Financial Officer**
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Steve Chapman, Chief Executive Officer and President of Natera, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The quarterly report on Form 10-Q for the Company for the quarter ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2022

By: */s/ Steve Chapman*
Name: **Steve Chapman**
Title: **Chief Executive Officer and President**
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Brophy, Chief Financial Officer of Natera, Inc. (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The quarterly report on Form 10-Q for the Company for the quarter ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 4, 2022

By: */ s / Michael Brophy*
Name: **Michael Brophy**
Title: **Chief Financial Officer**
(Principal Financial and Accounting Officer)