Invitae Corp
Form 10-Q
August 09, 2018

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, 2018

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

For the transition period from to

Commission File No. 001-36847

Invitae Corporation

(Exact name of the registrant as specified in its charter)

Delaware	27-1701898
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1400 16th Street, San Francisco, California 94103

(Address of principal executive offices, Zip Code)

(415) 374-7782

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

The number of shares of the registrant's Common Stock outstanding as of August 3, 2018 was 69,047,903.

TABLE OF CONTENTS

PART I — Financial Information

ITEM 1. Financial Statements.

INVITAE CORPORATION

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$48,568	$ 12,053
Marketable securities	36,576	52,607
Accounts receivable	25,058	10,422
Prepaid expenses and other current assets	12,311	11,599
Total current assets	122,513	86,681
Property and equipment, net	28,816	30,341
Restricted cash	5,307	5,406
Marketable securities, non-current	900	5,983
Intangible assets, net	32,994	35,516
Goodwill	47,217	46,575
Other assets	1,329	576
Total assets	$239,076	$ 211,078
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$5,200	$ 8,606
Accrued liabilities	22,566	22,742
Capital lease obligation, current portion	1,829	2,039
Debt, current portion	3,061	—
Total current liabilities	32,656	33,387
Capital lease obligation, net of current portion	2,413	3,373
Debt, net of current portion	55,575	39,084
Other long-term liabilities	9,785	13,440
Total liabilities	100,429	89,284
Commitments and contingencies (Note 9)		
Stockholders’ equity:		

Preferred stock, $0.0001 par value: Authorized: 20,000,000 shares; Issued and outstanding: 3,458,823 as of June 30, 2018 and December 31, 2017	—	—
Common stock, $0.0001 par value: Authorized: 400,000,000 shares; Issued and outstanding: 68,976,036 and 53,595,914 shares as of June 30, 2018 and December 31, 2017, respectively	6	5
Accumulated other comprehensive loss	(109)	(171)
Additional paid-in capital	593,898	520,558
Accumulated deficit	(455,148)	(398,598)
Total stockholders' equity	138,647	121,794
Total liabilities and stockholders' equity	$239,076	$ 211,078

See accompanying notes to unaudited condensed consolidated financial statements.

INVITAE CORPORATION

Condensed Consolidated Statements of Operations

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue:				
Test revenue	$36,350	$13,592	$63,403	$23,287
Other revenue	956	744	1,574	1,387
Total revenue	37,306	14,336	64,977	24,674
Costs and operating expenses:				
Cost of test revenue	20,447	10,490	38,523	19,819
Research and development	15,784	11,339	31,150	21,362
Selling and marketing	18,707	12,520	37,631	24,092
General and administrative	12,436	8,062	24,216	14,813
Total costs and operating expenses	67,374	42,411	131,520	80,086
Loss from operations	(30,068)	(28,075)	(66,543)	(55,412)
Other income (expense), net	188	151	1,835	(540)
Interest expense	(1,791)	(1,067)	(3,083)	(1,389)
Net loss before taxes	(31,671)	(28,991)	(67,791)	(57,341)
Income tax benefit	—	(434)	—	(1,856)
Net loss	$(31,671)	$(28,557)	$(67,791)	$(55,485)
Net loss per share, basic and diluted	$(0.47)	$(0.66)	$(1.12)	$(1.30)
Shares used in computing net loss per share, basic and diluted	67,806,606	43,226,569	60,775,077	42,808,175

See accompanying notes to unaudited condensed consolidated financial statements.

INVITAE CORPORATION

Condensed Consolidated Statements of Comprehensive Loss

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(31,671)	$(28,557)	$(67,791)	$(55,485)
Other comprehensive income (loss):				
Unrealized income (loss) on available-for-sale marketable securities, net of tax	51	(2)	62	(38)
Comprehensive loss	$(31,620)	$(28,559)	$(67,729)	$(55,523)

See accompanying notes to unaudited condensed consolidated financial statements.

INVITAE CORPORATION

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(67,791)	$(55,485)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,927	3,491
Stock-based compensation	10,505	9,607
Amortization of debt issuance costs	429	171
Amortization of premium on marketable securities	9	80
Loss on disposal of assets	—	268
Loss on sales of available-for-sale securities	24	—
Remeasurements of liabilities associated with business combinations	709	352
Changes in operating assets and liabilities net of effects of business combination:	—	—
Accounts receivable	(4,037)	(1,119)
Prepaid expenses and other current assets	(512)	(198)
Other assets	(1,428)	(36)
Accounts payable	(3,106)	2,049
Accrued expenses and other liabilities	(396)	(1,011)
Net cash used in operating activities	(58,667)	(41,831)
Cash flows from investing activities:		
Purchases of marketable securities	(900)	(57,187)
Proceeds from sales of marketable securities	19,965	—
Proceeds from maturities of marketable securities	2,078	35,168
Acquisition of businesses, acquired cash	—	108
Purchases of property and equipment	(3,084)	(3,476)
Net cash provided by (used in) in investing activities	18,059	(25,387)
Cash flows from financing activities:		
Proceeds from underwritten public offering of common stock, net of issuance costs	53,480	—
Proceeds from issuance of common stock	4,933	2,264
Proceeds from loan and security agreement	19,781	39,661
Loan payments	—	(12,102)
Capital lease principal payments	(1,170)	(1,457)
Net cash provided by financing activities	77,024	28,366

Net increase (decrease) in cash, cash equivalents and restricted cash	36,416	(38,852)
Cash, cash equivalents and restricted cash at beginning of period	17,459	71,522
Cash, cash equivalents and restricted cash at end of period	$53,875	$32,670
Supplemental cash flow information:		
Interest paid	$2,481	$1,209
Supplemental cash flow information of non-cash investing and financing activities:		
Equipment acquired through capital leases	$—	$3,879
Purchases of property and equipment in accounts payable and accrued liabilities	$238	$1,647
Investment in privately held company in other assets and accrued liabilities	$675	$—
Warrants issued pursuant to loan and security agreement	$383	$740
Common stock issued for acquisition of businesses	$3,973	$11,002
Consideration payable for acquisition of businesses	$—	$7,522

See accompanying notes to unaudited condensed consolidated financial statements.

INVITAE CORPORATION

Notes to Condensed Consolidated Financial Statements

1. Organization and description of business

Invitae Corporation (the “Company”) was incorporated in the State of Delaware on January 13, 2010, as Locus Development, Inc. and changed its name to Invitae Corporation in 2012. The Company utilizes an integrated portfolio of laboratory processes, software tools and informatics capabilities to process DNA-containing samples, analyze information about patient-specific genetic variation and generate test reports for clinicians and their patients. The Company’s headquarters and main production facility is located in San Francisco, California. The Company currently has more than 20,000 genes in production and provides a variety of diagnostic tests that can be used in multiple indications. The Company’s tests include genes associated with hereditary cancer, neurological disorders, cardiovascular disorders, pediatric disorders, metabolic disorders and other hereditary conditions. In addition, and as a result of the acquisitions of Good Start Genetics (“Good Start”) in August 2017 and CombiMatrix Corporation (“CombiMatrix”) in November 2017, the Company’s services also include screening and testing in reproductive health, including preimplantation and carrier screening for inherited disorders, prenatal diagnosis, miscarriage analysis and pediatric developmental disorders. The Company operates in one segment.

The Company has incurred substantial losses since its inception and expects to continue to incur operating losses in the near term. For the year ended December 31, 2017, the Company’s net loss was $123.4 million, and for the six months ended June 30, 2018, the Company’s net loss was $67.8 million. At June 30, 2018, the Company’s accumulated deficit was $455.1 million. While the Company’s revenue has increased over time, it may never achieve revenue sufficient to offset its expenses. The Company believes its existing cash, cash equivalents and marketable securities as of June 30, 2018, revenue from the sale of its tests, and amounts available under a loan agreement will be sufficient to meet its anticipated cash requirements for its currently-planned operations for the 12-month period following the filing date of this report.

The Company may need to obtain additional funding to finance operations prior to achieving profitability. Company management regularly considers fundraising opportunities and will determine the timing, nature and size of future financings based upon various factors, including market conditions and management’s operating plans. The Company may in the future elect to finance operations by selling equity or debt securities or borrowing money. If additional funding is required, there can be no assurance that additional funds will be available to the Company on acceptable terms on a timely basis, if at all. If the Company is unable to obtain additional funding when needed, it will need to curtail planned activities to reduce costs. Doing so will likely have an unfavorable effect on the Company’s ability to execute on its business plan, and have an adverse effect on its business, results of operations and future prospects.

The Company has implemented the guidance in Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40), and concluded that there are not conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a period of one year following the date that the June 30, 2018 financial statements are issued.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The results for the three and six months ended June 30, 2018 are not necessarily indicative of the results expected for the full fiscal year or any other periods.

2. Summary of significant accounting policies

Principles of consolidation

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

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company believes judgment is involved in determining revenue recognition (See Note 3, "Revenue, accounts receivable and deferred revenue" for further information); the acquisition-date fair value of intangible assets; the fair value of contingent consideration associated with acquisitions; the recoverability of long-lived assets; impairment of goodwill and intangible assets; stock-based compensation expense; and income tax uncertainties. The Company bases these estimates on historical and anticipated results, trends and various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. Actual results could differ materially from those estimates and assumptions.

Concentrations of credit risk and other risks and uncertainties

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, marketable securities and accounts receivable. The Company's cash and cash equivalents are held by financial institutions in the United States. Such deposits may exceed federally insured limits.

The Company's 10% or greater customers and their related revenue as a percentage of total revenue were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Medicare	18.0%	10.5%	17.2%	12.1%
United Healthcare	*	10.4%	*	10.0%

* Less than 10% of total revenue

The Company's significant customers and their related accounts receivable balance as percentage of total accounts receivable were as follows:

	June 30, 2018	December 31, 2017
Medicare	*	13.1 %

* Less than 10% of total accounts receivable

Accounts receivable

The Company receives payment for its tests from partners, patients, institutional customers and third-party payers. See Note 3, "Revenue, accounts receivable and deferred revenue" for further information.

Business combinations

The tangible and identifiable intangible assets acquired and liabilities assumed in a business combination are recorded based on their estimated fair values as of the business combination date, including identifiable intangible assets which either arise from a contractual or legal right or are separable from goodwill. The Company bases the estimated fair value of identifiable intangible assets acquired in a business combination on independent valuations that use information and assumptions provided by management, which consider management's estimates of inputs and assumptions that a market participant would use. Any excess purchase price over the estimated fair value assigned to the net tangible and identifiable intangible assets acquired and liabilities assumed is recorded to goodwill. The use of alternative valuation assumptions, including estimated revenue projections, growth rates, cash flows, discount rates, estimated useful lives and probabilities surrounding the achievement of contingent milestones could result in different purchase price allocations and amortization expense in current and future periods.

In circumstances where an acquisition involves a contingent consideration arrangement that meets the definition of a liability under FASB Accounting Standards Codification ("ASC") Topic 480, Distinguishing Liabilities from Equity, the Company recognizes a liability equal to the fair value of the contingent payments the Company expects to make as of the acquisition date. The Company remeasures this liability each reporting period and records changes in the fair value as a component of operating expenses.

Transaction costs associated with acquisitions are expensed as incurred in general and administrative expenses. Results of operations and cash flows of acquired companies are included in the Company's operating results from the date of acquisition.

Goodwill

In accordance with ASC 350, Intangibles-Goodwill and Other (“ASC 350”), the Company’s goodwill is not amortized but is tested for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Under ASC 350, the Company performs annual impairment reviews of its goodwill balance during the fourth fiscal quarter. In testing for impairment, the Company compares the fair value of its reporting unit to its carrying value including the goodwill of that unit. If the carrying value, including goodwill, exceeds the reporting unit’s fair value, the Company will recognize an impairment loss for the amount by which the carrying amount exceeds the reporting unit’s fair value. The loss recognized cannot exceed the total amount of goodwill allocated to that reporting unit.

The Company did not incur any goodwill impairment losses in any of the periods presented.

Fair value of financial instruments

The Company’s financial instruments consist principally of cash and cash equivalents, marketable securities, accounts payable, accrued liabilities, capital leases and debt. The carrying amounts of certain of these financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued and other current liabilities approximate their current fair value due to the relatively short-term nature of these accounts. Based on borrowing rates available to the Company, the carrying value of capital leases approximates fair value.

See Note 7, “Fair value measurements” for disclosure of the fair value of debt and further information on the fair value of the Company’s financial instruments.

Variable interest entity

The Company has a variable interest in a variable interest entity (“VIE”) through an investment in a convertible note issued by the VIE. The convertible notes do not provide the Company with voting rights in the VIE or with power to direct the activities of the VIE which most significantly affect its economic performance. The Company is not the VIE’s primary beneficiary and does not consolidate the VIE. The Company will continue to assess its investment and future commitments to the VIE. To the extent its relationship with the VIE changes the Company may be required to consolidate the VIE in future periods.

See Note 6, “Balance sheet components”, Note 7, “Fair value measurements” and Note 8, “Investment in privately held company” for additional disclosures related to the convertible notes, which are recorded as available-for-sale securities.

Revenue recognition

The Company recognizes revenue when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. All revenues are generated from contracts with customers.

Test revenue is generated primarily from the sale of tests that provide analysis and associated interpretation of the sequencing of parts of the genome. Revenue associated with subsequent re-requisition services and family variant tests was de minimis for all periods presented.

Other revenue consists primarily of revenue from genome network subscription services which is recognized on a straight-line basis over the subscription term, and revenue from collaboration agreements.

Cost of test revenue

Cost of test revenue reflects the aggregate costs incurred in delivering the genetic testing results to clinicians and includes expenses for personnel-related costs including stock-based compensation, materials and supplies, equipment and infrastructure expenses associated with testing and allocated overhead including rent, equipment depreciation and utilities.

Net loss per common share

Basic net loss per common share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury stock method. Potentially dilutive securities, consisting of preferred stock, options to purchase common stock, common stock warrants, RSUs and PRSUs, are considered to be common stock equivalents and were excluded from the calculation of diluted net loss per share because their effect would be antidilutive for all periods presented.

Recent accounting pronouncements

The Company evaluates all ASUs issued by the FASB for consideration of their applicability. ASUs not included in the disclosures in this report were assessed and determined to be either not applicable or are not expected to have a material impact on the Company’s condensed consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. Under the new guidance, the accounting for share-based payments to nonemployees and employees will be substantially aligned. ASU 2018-07 is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. The adoption of ASU 2018-07 is not expected to have a significant effect upon the Company’s consolidated financial statements, related disclosures and ongoing financial reporting. The Company plans to implement ASU 2018-07 on January 1, 2019.

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220). Under the new guidance, entities will be permitted to reclassify tax effects stranded in accumulated other comprehensive income as a result of tax reform to retained earnings. ASU 2018-02 is effective for annual and interim periods beginning after December 15, 2018 and early adoption is permitted. When adopted, ASU 2018-02 requires all entities to make new disclosures, regardless of whether they elect to reclassify stranded amounts. The Company is evaluating the effect that ASU 2018-02 will have on its consolidated financial statements, related disclosures and ongoing financial reporting. The Company has not yet selected an implementation date for ASU 2018-02.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases (with the exception of short-term leases) at the commencement date. Lessor accounting under ASU 2016-02 is largely unchanged. ASU 2016-02 is effective for annual and interim periods beginning on or after December 15, 2018 and early adoption is permitted. Under ASU 2016-02, lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. In March 2017, the FASB voted to allow an optional transition method under which companies may record a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption (January 1, 2019) and apply existing lease accounting guidance in comparative periods ending prior to January 1, 2019. Lessees and lessors may not apply a full retrospective transition approach.

The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements, related disclosures and ongoing financial reporting. The Company expects implementation of ASU 2016-02 will result in the recognition of significant right of use assets and corresponding lease liabilities in its consolidated balance sheets, principally relating to the Company’s facilities leases. The Company plans to implement ASU 2016-02 on January 1, 2019.

Recently adopted accounting pronouncements – Revenue recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), designed to enable users of financial statements to better understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On January 1, 2018, the Company adopted the provisions of Topic 606 using the modified retrospective method. From adoption to date, the Company has recognized all its revenue from contracts with customers within the scope of Topic 606. In connection with the adoption, the Company recognized the cumulative effect of initially applying this standard as an adjustment to retained earnings on the date of adoption.

Comparative information prior to the date of adoption has not been restated and continues to be reported under the accounting standards in effect for those periods.

In connection with the adoption of Topic 606, the Company amended its revenue recognition policy to provide for the recognition of certain variable consideration related to diagnostic tests that was previously deferred pending cash collection. Under Topic 606, the Company records variable consideration based on an estimate of the consideration to which it will be entitled.

Revenue recognition

Adoption of Topic 606, "Revenue from Contracts with Customers"

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective transition method. The provisions of Topic 606 were applied to all customer contracts that were not completed as of the date of adoption. Prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for those periods.

The Company recognizes revenue when control of the promised goods or services is transferred to the customer in an amount that reflects the consideration it expects to be entitled to in exchange for those goods or services. All revenues are generated from contracts with customers.

Diagnostic tests

The majority of the Company’s revenue is generated from genetic testing services that provide analysis and associated interpretation of the sequencing of parts of the genome. Test orders are placed under written requisitions signed by the patient and/or medical provider, and the Company often enters into contracts with institutions (e.g., hospitals and clinics) and insurance companies that include pricing provisions under which such tests are billed. Billing terms are generally net thirty days.

While the transaction price of diagnostic tests is originally established either via contract or pursuant to the Company’s standard list price, the Company often provides concessions for tests billed to insurance carriers, and therefore the transaction price for patient insurance-billed tests is considered to be variable and revenue is recognized based on an estimate of the consideration to which the Company will be entitled at an amount for which it is probable that a reversal of cumulative consideration will not occur. Making these estimates requires significant judgments based upon such factors as length of payer relationship, historical payment patterns, changes in contract provisions and insurance reimbursement policies. These judgments are reviewed quarterly and revenue recognized is updated, as necessary, until the Company’s obligations are fully settled.

In connection with some diagnostic test orders, the Company offers limited re-requisition rights (“Re-Requisition Rights”) that are considered distinct at contract inception, and therefore certain diagnostic test orders contain two performance obligations, the performance of the original test and the Re-Requisition Rights. When Re-Requisition Rights are granted, the Company allocates the transaction price to each performance obligation based on the relative estimated standalone selling prices. In order to comply with loss contract rules, the allocations are adjusted, if necessary, to ensure the amount deferred for Re-Requisition Rights is no less than the estimated cost of fulfilling the Company’s related obligations.

The Company looks to transfer of control in assessing timing of recognition of revenue in connection with each performance obligation. In general, revenue in connection with diagnostic tests is recognized upon delivery of the underlying clinical report or when the report is made available on the Company’s web portal. Outstanding performance obligations pertaining to orders received but for which the underlying report has not been issued are generally satisfied within a thirty-day period. Revenue in connection with Re-Requisition Rights is recognized as the rights are exercised or expire unexercised, which is generally within ninety days of initial deferral.

Other contracts

The Company also enters into collaboration and genome network contracts. Collaboration agreements provide customers with diagnostic testing and related data aggregation reporting services that are provided over the contract term. Collaboration revenue is recognized as the testing and reporting services are delivered to the customer. Genome network offerings consist of subscription services related to a proprietary software platform designed to connect patients, clinicians, advocacy organizations, researchers and therapeutic developers to accelerate the understanding, diagnosis and treatment of hereditary disease. Such services are recognized on a straight-line basis over the subscription periods.

Amounts due under collaboration and genome network agreements are typically billable on net thirty-day terms.

Prior period reclassifications

Statement of cash flow amounts in prior periods have been reclassified to conform with current period presentation, which separates amortization of debt issuance costs from depreciation and amortization.

3. Revenue, accounts receivable and deferred revenue

As described in Note 2, the Company adopted Topic 606 effective January 1, 2018. In connection with the adoption the Company utilized the following practical expedients and exemptions:

- Certain information about remaining performance obligations is not disclosed because the underlying contracts have an original expected duration of one year or less.
- Sales commissions are expensed when incurred because the amortization period would have been one year or less. Commission costs are recorded as a component of sales and marketing expenses.
- No adjustments to promised consideration were made for financing as the Company expects, at contract inception, that the period between the transfer of a promised good or service and when the customer pays for that good or service will be one year or less.

The adoption of Topic 606 resulted in a cumulative-effect adjustment of $11.2 million to accounts receivable and accumulated deficit as of January 1, 2018, primarily related to the recognition of uncollected diagnostic test variable consideration as of the date of adoption. Test revenue without adoption of Topic 606 for the three and six months ended June 30, 2018 includes cash collections related to accounts receivable recorded as of January 1, 2018 in connection with the Topic 606 cumulative-effect adjustment.

The effect of the adoption of Topic 606 upon financial statement line items in the Company’s condensed consolidated statement of operations for the three and six months ended June 30, 2018, and the Company’s condensed consolidated balance sheet as of June 30, 2018 was as follows (in thousands, except per share amounts):

	Three Months Ended June 30, 2018		
	As Reported	Without Adoption of Topic 606	Effect of Adoption Higher/(Lower)
Test revenue	$36,350	$36,479	$ (129)
Net loss	$(31,671)	$(31,542)	$ (129)
Net loss per share, basic and diluted	$(0.47)	$(0.47)	$ —

	Six Months Ended June 30, 2018		
	As Reported	Without Adoption of Topic 606	Effect of Adoption Higher/(Lower)
Test revenue	$63,403	$63,459	$ (56)
Net loss	$(67,791)	$(67,735)	$ (56)
Net loss per share, basic and diluted	$(1.12)	$(1.11)	$ (0.01)

	As of June 30, 2018		
	As Reported	Without Adoption of Topic 606	Effect of Adoption Higher/(Lower)
Accounts receivable, net	$25,058	$12,671	$ 12,387
Accumulated deficit	$(455,148)	$(466,444)	$ 11,296
Stockholders' equity	$138,647	$127,351	$ 11,296

Disaggregation of revenue

Diagnostic test revenues are generated from three groups of customers: institutions, such as hospitals and clinics, patients who pay directly, and patients’ insurance carriers. Amounts billed and collected, and the timing of collections, vary based on whether the payer is an institution, an insurance carrier or a patient. Accordingly, for purposes of complying with the disclosure requirements of Topic 606, diagnostic test revenues are disaggregated between these three payer groups. Further, revenue recognized under collaboration and genome network agreements is disaggregated from diagnostic test revenue.

The following table includes the Company’s revenues as disaggregated by payer category (in thousands, unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017 [1]	2018	2017 [1]
Diagnostic tests:				
Institutions	$8,572	$2,619	$15,803	$5,219
Patient - direct	3,575	849	6,425	1,606
Patient - insurance	24,203	10,124	41,175	16,462
Total diagnostic tests	36,350	13,592	63,403	23,287
Collaboration and genome network	956	744	1,574	1,387
Total revenues	$37,306	$14,336	$64,977	$24,674

[1] As noted above, prior period amounts are presented as originally reported based upon the accounting standards in effect for those periods.

Included in revenue in the Company's condensed consolidated statement of operations for the six months ended June 30, 2018 was $213,000 that was included in deferred revenue at January 1, 2018. Also included in revenue for the six months ended June 30, 2018 was an increase of $2.3 million to variable consideration for performance obligations satisfied in prior periods. This adjustment reflected a change in accounting estimate relating to notification from Medicare of approval for payment of deletion/duplication analysis under Current Procedure Terminology (CPT) code 81433 in conjunction with CPT code 81432, for tests completed during the second half of 2017.

Accounts receivable, net

The majority of the Company’s accounts receivable represents amounts billed to institutions (e.g., hospitals, clinics) and estimated amounts to be collected from third-party insurance payers for diagnostic test revenue recognized. Also included is amounts due under the terms of collaboration and genome network agreements for diagnostic testing and data aggregation reporting services provided and proprietary platform access rights transferred.

Deferred revenues

The Company records deferred revenues when cash payments are received or due in advance of its performance related to one or more performance obligations. The amounts deferred to date primarily consist of consideration received pertaining to the estimated exercise of certain Re-Requisition Rights. In order to comply with loss contract rules, the Company’s Re-Requisition Rights revenue deferral is no less than the estimated cost of fulfilling its related obligations. The Company recognizes revenue related to Re-Requisition Rights as the rights are exercised or expire unexercised, which is generally within 90 days of initial deferral.

4. Business combinations

AltaVoice

On January 6, 2017, the Company acquired AltaVoice (formerly Patient Crossroads, Inc.), a privately-owned patient-centered data company with a global platform for collecting, curating, coordinating and delivering safeguarded data from patients and clinicians. The acquisition, complemented by several other strategic partnerships, expands the Company's genome network, designed to connect patients, clinicians, advocacy organizations, researchers and therapeutic developers to accelerate the understanding, diagnosis and treatment of hereditary disease. Pursuant to the terms of the Stock Purchase Agreement entered into on January 6, 2017, the Company acquired all of the outstanding shares of AltaVoice for total purchase consideration of $12.4 million, payable in the Company’s common stock, as follows:

(a) payment of $5.5 million through the issuance of 641,126 shares of the Company’s common stock;

(b) payment of $5.0 million in the Company’s common stock, payable on March 31, 2018, with the common shares deliverable equal to $5.0 million divided by the trailing average share price of the Company’s common stock for the 30 days preceding March 31, 2018. This payment was made on April 2, 2018 through the issuance of 716,332 shares of the Company’s common stock;

(c) payment of $5.0 million in the Company’s common stock, which was contingently payable on March 31, 2018 if a milestone based on a certain threshold of revenue was achieved during 2017, with the shares deliverable equal to $5.0 million divided by the trailing average share price of the Company’s common stock for the 30 days preceding March 31, 2018. As the foregoing milestone was not achieved, there is a new contingent milestone based on achieving a revenue target during 2017 and 2018. Should the new milestone revenue target be achieved, on March 31, 2019, a payment of up to $5.0 million in the Company’s common stock will be payable. The actual payout is dependent upon the 2017 and 2018 revenue target (capped at $14.0 million) times 75% less $5.5 million. This formula in effect caps the possible payout amount at $5.0 million in the Company’s common shares. The number of shares to be issued will be equal to the payout amount divided by the trailing average share price of the

Company's common stock for the 30 days preceding March 31, 2019.
The first payment of $5.5 million was classified as equity. The second payment was discounted to $4.7 million as of the acquisition date, recorded as a liability, and was accreted to fair value at each reporting date until the extinguishment of the liability on April 2, 2018. The third payment, representing contingent consideration, was determined to have a fair value of $2.2 million as of the acquisition date and was recorded as a liability. In accordance with ASC Topic 805, Business Combinations, the contingent consideration of $2.2 million will be remeasured to fair value at each reporting date until the contingency is resolved, with changes in fair value recognized in earnings.

For the second payment, the acquisition-date fair value was $4.7 million, and the Company recorded accretion gains (losses) of $1.6 million and $(58,000) in other income (expense), net, for the three months ended June 30, 2018 and 2017, respectively and $1.6 million and $(111,000) for the six months ended June 30, 2018 and 2017, respectively. The accretion gains in 2018 resulted from an adjustment to the value of the second payment as of March 31, 2018, and principally reflected the difference between the value of the common shares deliverable, based upon the closing price of the Company's stock on March 29, 2018, and the value per share used to calculate the number of common shares deliverable. The accretion losses in 2017 resulted from adjustments to the discounted value of the second payment, reflecting the passage of time.

For the third payment, whose contingent acquisition-date fair value was $2.2 million, the Company recorded remeasurement losses of $384,000 and $241,000 in operating expense for the three months ended June 30, 2018 and 2017, respectively and $872,000 and $241,000 in operating expense for the six months ended June 30, 2018 and 2017, respectively. The remeasurement losses in 2018 reflect updated estimations of fair value of the third payment, based upon achieving a revenue target during 2017 and 2018, as the milestone based on a certain threshold of revenue to be achieved during 2017 was not met. The principal inputs affecting those estimations have been updates to the Company's revenue forecasts and the passage of time.

Assets acquired and liabilities assumed are recorded based on valuations derived from estimated fair value assessments and assumptions used by the Company. While the Company believes that its estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill. The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash	$54
Accounts receivable	274
Prepaid expense and other assets	52
Non-compete agreement	286
Developed technology	570
Customer relationships	3,389
Total identifiable assets acquired	4,625
Accounts payable	(28)
Deferred revenue	(202)
Accrued expenses	(21)
Deferred tax liability	(1,422)
Total liabilities assumed	(1,673)
Net identifiable assets acquired	2,952
Goodwill	9,432
Net assets acquired	$12,384

Acquisition-related intangibles included in the above table are finite-lived. Customer relationships are being amortized on an accelerated basis, utilizing free cash flows, over a period of ten years. All other acquisition-related intangibles are being amortized on a straight-line basis over their estimated lives, which approximates the pattern in which the economic benefits of the intangible assets are expected to be realized, as follows (in thousands):

	Gross Purchased Intangible Assets	Estimated Useful Life (in Years)
Non-compete agreement	$ 286	5
Developed technology	570	6
Customer relationships	3,389	10
	$ 4,245	

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The acquisition of AltaVoice resulted in $9.4 million of goodwill. The Company believes this goodwill consists principally of expected synergies to be realized by combining capabilities, technology and data to accelerate the use of genetic information for the diagnosis and treatment of hereditary diseases. In accordance with ASC 350, goodwill will not be amortized but will be tested for impairment at least annually. Goodwill created as a result of the acquisition is not deductible for tax purposes. Concurrent with the acquisition, the Company recorded additional goodwill of $1.4 million relating to the tax consequence of recognizing the fair value of the acquisition-related intangibles, with an equal offset to deferred tax liability.

The results of operations of AltaVoice for the period from the acquisition date through June 30, 2017 are included in the Company's condensed consolidated statements of operations for the three months ended June 30, 2017. Pursuant to ASC 805, the Company incurred and expensed approximately $159,000 in acquisition and transitional costs associated with the acquisition of AltaVoice during the six months ended June 30, 2017, which were primarily general and administrative related.

Ommdom

On June 11, 2017, the Company acquired Ommdom, Inc. ("Ommdom"), a privately-held company that develops, commercializes and sells hereditary risk assessment and management software, including CancerGene Connect, a cancer genetic counseling platform. The acquisition expands Invitae's suite of genome management offerings designed to help patients and clinicians use genetic information as part of mainstream medical care. CancerGene Connect is a platform for collecting and managing genetic family histories. The platform uses a cloud-based, mobile friendly patient interface to gather family history information from patients prior to a clinician appointment. Then, analysis tools analyze patients' predisposition to disease and provide actionable analysis to inform therapeutic decisions, such as genetic testing or treatment approaches. In addition, the platform provides clinicians with the ability to look beyond the individual to understand trends across all of their patients.

Pursuant to the terms of a Stock Exchange Agreement, the Company acquired all of the outstanding shares of Ommdom for consideration of $6.1 million, payable entirely in the Company's common stock. There was no cash consideration nor any contingent payments associated with the acquisition, other than a hold-back amount of $613,000. Per the terms of the agreement, the Company was obligated to issue shares of its common stock as follows:

(a) payment of $5.5 million through the issuance of 600,108 shares of the Company's common stock on the acquisition date; and
(b) payment of $0.6 million through the issuance of 66,582 shares of the Company's common stock, representing a hold-back amount, and payable on the twelve-month anniversary of the acquisition date. This payment was made on June 11, 2018.

The first payment of $5.5 million was classified as equity. The second payment of $613,000 was recorded as a stock payable liability on the acquisition date and was reclassified to equity upon the issuance of 66,582 shares of the Company's common stock on June 11, 2018.

Assets acquired and liabilities assumed are recorded based on valuations derived from estimated fair value assessments and assumptions used by the Company. While the Company believes that its estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill. The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash	$53
Accounts receivable	10
Prepaid expense and other assets	4
Trade name	13
Developed technology	2,335
Customer relationships	147
Total identifiable assets acquired	2,562
Accounts payable	(16)
Accrued expenses	(17)
Deferred tax liability	(434)
Total liabilities assumed	(467)
Net identifiable assets acquired	2,095
Goodwill	4,045
Net assets acquired	$6,140

Finite-lived intangibles included in the above table are being amortized on a straight-line basis over their estimated lives, which approximates the pattern in which the economic benefits of the intangible assets are expected to be realized, as follows (in thousands):

	Gross Purchased Intangible Assets	Estimated Useful Life (in Years)
Trade name	$ 13	5
Developed technology	2,335	5
Customer relationships	147	5
	$ 2,495	

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The acquisition of Ommdom resulted in the recognition of $4.0 million of goodwill. The Company believes this goodwill consists principally of expected synergies to be realized by expanding the Company's suites of genome management offerings designed to help patients and clinicians use genetic information as part of mainstream medical care. In accordance with ASC 350, goodwill will not be amortized but rather will be tested for impairment at least annually. Goodwill created as a result of the acquisition is not deductible for tax purposes. Concurrent with the acquisition, the Company recorded additional goodwill of $434,000 relating to the tax consequence of recognizing the fair value of the acquisition-related intangibles, with an equal offset to deferred tax liability.

Good Start Genetics

On August 4, 2017, the Company acquired 100% of the fully diluted equity of Good Start, a privately-held molecular diagnostics company focused on preimplantation and carrier screening for inherited disorders. The acquisition of Good Start is intended to further Invitae's plan to create a comprehensive genetic information platform providing high-quality, affordable genetic information coupled with world-class clinical expertise to inform healthcare decisions throughout every stage of an individual's life. The purchase consideration for the Good Start acquisition consisted of the assumption of the net liabilities of Good Start of $24.4 million at the acquisition date.

Immediately subsequent to the acquisition of Good Start, the Company paid $18.4 million in cash to settle outstanding notes payable, accrued interest and related costs. In addition, and immediately subsequent to the acquisition, the Company settled outstanding convertible promissory notes payable through:

(a) payment of $11.9 million through the issuance of 1,148,283 shares of the Company's common stock; and
(b) payment of $3.6 million through the issuance of 343,986 shares of the Company's common stock, representing a hold-back amount payable on the one-year anniversary of the acquisition date.

Also in connection with the acquisition of Good Start and immediately subsequent to the acquisition, the Company paid bonuses to certain members of Good Start's management team through:

(a) payment of $0.9 million through the issuance of 83,025 shares of the Company's common stock; and
(b) payment of $0.4 million through the issuance of 37,406 shares of the Company's common stock, representing a hold-back amount payable on the one-year anniversary of the acquisition date.

These bonus payments were recorded as general and administrative expense.

Assets acquired and liabilities assumed are recorded based on valuations derived from estimated fair value assessments and assumptions used by the Company. The amount recorded as accounts receivable is provisional as the Company expects to receive future cash collections pertaining to Good Start revenue activities completed but not recognized at the acquisition date. The amount recorded as deferred tax liability, zero as of December 31, 2017, is provisional because certain information and analysis related to Good Start's historical net operating losses that may affect the Company's valuation is still being obtained or reviewed. Thus, the provisional measurement of fair value discussed above is subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date. While the Company believes that its estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill.

At acquisition date, the Company also recorded $4.8 million as a provisional amount for a deferred tax liability because certain information and analysis related to Good Start's historical net operating losses that may affect the Company's initial valuation was still being obtained or reviewed at that time. This provisional amount for the deferred tax liability was subsequently reversed during the fourth quarter of 2017 based on the results of further analysis of Good Start's historical net operating losses.

The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash and restricted cash	$1,381
Accounts receivable	2,262
Prepaid expense and other assets	1,579
Property and equipment	1,320
Trade name	460
Developed technology	5,896
Customer relationships	7,830
Total identifiable assets acquired	20,728
Accounts payable	(5,418)
Accrued expenses	(6,802)
Notes payable	(17,904)
Convertible promissory notes payable	(15,430)
Other liabilities	(222)
Total liabilities assumed	(45,776)
Net identifiable assets acquired	(25,048)
Goodwill	25,048
Net assets acquired	$—

In March 2018 and in June 2018, the Company recorded adjustments to its accounting for the amount recorded as accounts receivable at acquisition. Accordingly, the fair value of accounts receivable was decreased by $397,000 on March 31, 2018 and further decreased by $245,000 on June 30, 2018 with corresponding increases to goodwill.

Customer relationships are being amortized on an accelerated basis, utilizing free cash flows, over a period of eight years. All other finite-lived intangibles included in the above table are being amortized on a straight-line basis over their estimated lives, which approximates the pattern in which the economic benefits of the intangible assets are expected to be realized, as follows (in thousands):

	Gross Purchased Intangible Assets	Estimated Useful Life (in Years)
Trade name	$ 460	3
Developed technology	5,896	5
Customer relationships	7,830	8
	$ 14,186	

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The acquisition of Good Start resulted in the recognition of $25.0 million of goodwill. The Company believes this goodwill consists principally of expected synergies to be realized by expanding the Company's suite of genome management offerings designed to help patients and clinicians use genetic information as part of mainstream medical care. In accordance with ASC 350, goodwill will not be amortized but rather will be tested for impairment at least annually. Goodwill created as a result of the acquisition is not deductible for tax purposes.

CombiMatrix

On November 14, 2017, the Company completed its acquisition of CombiMatrix in accordance with the terms of the Agreement and Plan of Merger and Reorganization, dated as of July 31, 2017 (the "Merger Agreement"), by and among the Company, Coronado Merger Sub, Inc., a wholly-owned subsidiary of the Company ("Merger Sub"), and CombiMatrix, pursuant to which Merger Sub merged with and into CombiMatrix, with CombiMatrix surviving as a wholly-owned subsidiary of the Company (the "Merger").

At the closing of the Merger, the Company issued shares of its common stock to (i) CombiMatrix's common stockholders, at an exchange ratio of 0.8692 of a share of the Company's common stock (the "Merger Exchange Ratio") for each share of CombiMatrix common stock outstanding immediately prior to the Merger, (ii) CombiMatrix's Series F preferred stockholders, at the Merger Exchange Ratio for each share of CombiMatrix common stock underlying Series F preferred stock outstanding immediately prior to the Merger, (iii) holders of outstanding and unexercised in-the-money CombiMatrix stock options, which were fully accelerated to the extent of any applicable vesting period and converted into the right to receive the number of shares of the Company's common stock equal to the Merger Exchange Ratio multiplied by the number of shares of CombiMatrix common stock issuable upon exercise of such option, minus the number of shares of the Company's common stock determined by dividing the aggregate exercise price for such option by $9.491 (the "Invitae Trailing Average Share Value"), and (iv) holders of outstanding and unsettled CombiMatrix restricted stock units, which were fully accelerated to the extent of any applicable vesting period and converted into the right to receive a number of shares of the Company's common stock determined by multiplying the number of shares of CombiMatrix common stock that were subject to such restricted stock unit by the Merger Exchange Ratio.

In addition, at the closing of the Merger, (a) all outstanding and unexercised out-of-the money CombiMatrix stock options were cancelled and terminated without the right to receive any consideration, (b) all CombiMatrix Series D Warrants and Series F Warrants outstanding and unexercised immediately prior to the closing of the Merger were assumed by the Company and converted into warrants to purchase the number of shares of the Company's common stock determined by multiplying the number of shares of CombiMatrix common stock subject to such warrants by the Merger Exchange Ratio, and with the exercise price adjusted by dividing the per share exercise price of the CombiMatrix common stock subject to such warrants by the Merger Exchange Ratio, and (c) certain entitlements under CombiMatrix's executive compensation transaction bonus plan (the "Transaction Bonus Plan") were paid in shares of the Company's common stock or RSUs to be settled in shares of the Company's common stock. All outstanding and unexercised CombiMatrix Series A, Series B, Series C, Series E, and PIPE warrants were repurchased by CombiMatrix prior to closing pursuant to that certain CombiMatrix Common Stock Purchase Warrants Repurchase Agreement dated July 11, 2016.

Pursuant to the Merger Agreement, the Company issued an aggregate of 2,703,389 shares of its common stock as follows:

(a) payment of $20.5 million through the issuance of 2,611,703 shares of the Company's common stock to holders of CombiMatrix common stock outstanding;
(b) payment of $0.7 million through the issuance of 85,219 shares of the Company's RSUs to holders of outstanding and unsettled CombiMatrix restricted stock units;
(c) payment of $26,000 through the issuance of 3,323 shares of the Company's common stock to holders of outstanding and unexercised in-the-money CombiMatrix stock options; and
(d) payment of $25,000 through the issuance of 3,144 shares of the Company's common stock to holders of CombiMatrix Series F preferred stock.

In addition, and pursuant to the Merger Agreement, the Company issued warrants to purchase an aggregate of 2,077,273 shares of its common stock as follows:

(a) payment of $7.4 million through the issuance of warrants to purchase a total of 1,739,689 shares of the Company's common stock in exchange for all outstanding CombiMatrix Series F warrants; and
(b) payment of $1,000 through the issuance of warrants to purchase a total of 337,584 shares of the Company's common stock in exchange for all outstanding CombiMatrix Series D warrants.

In connection with the acquisition of CombiMatrix, the Company paid bonuses to certain members of CombiMatrix's management team through:

(a) payment of $1.7 million through the issuance of common stock and RSUs totaling 214,976 shares of the Company's common stock to settle payments pursuant to CombiMatrix's executive compensation transaction bonus plan (the "Transaction Bonus Plan"), recorded as post-combination compensation expense and included in general and administrative expense; and
(b) payment of $0.2 million through the issuance of 22,966 shares of the Company's common stock to settle payments pursuant to the Transaction Bonus Plan, recorded as an assumed liability at the acquisition date.

Assets acquired and liabilities assumed are recorded based on valuations derived from estimated fair value assessments and assumptions used by the Company. The amount recorded as deferred tax liability, $0 at December 31, 2017, is provisional because certain information and analysis related to CombiMatrix's tax attributes and ownership change history that may affect the Company's valuation is still being obtained or reviewed. Thus, the provisional measurement of fair value discussed above is subject to change. The Company expects to finalize the valuation as soon as practicable, but not later than one year from the acquisition date. While the Company believes that its estimates and assumptions underlying the valuations are reasonable, different estimates and assumptions could result in different valuations assigned to the individual assets acquired and liabilities assumed, and the resulting amount of goodwill. The following table summarizes the fair values of assets acquired and liabilities assumed at the date of acquisition (in thousands):

Cash and restricted cash	$1,333
Accounts receivable	4,118
Prepaid expense and other assets	1,299
Property and equipment	437
Other assets - non current	30
Favorable leases	247
Trade name	103
Patent licensing agreement	496
Developed technology	3,162
Customer relationships	12,397
Total identifiable assets acquired	23,622
Accounts payable	(276)
Accrued expenses	(3,925)
Other liabilities	(180)
Total liabilities assumed	(4,381)
Net identifiable assets acquired	19,241
Goodwill	8,692
Net assets acquired	$27,933

Customer relationships are being amortized on an accelerated basis, utilizing free cash flows, over a period of 11 years. All other finite-lived intangibles included in the above table are being amortized on a straight-line basis over their estimated lives, which approximates the pattern in which the economic benefits of the intangible assets are expected to be realized, as follows (in thousands):

	Gross Purchased Intangible Assets	Estimated Useful Life (in Years)
Favorable leases	$ 247	2
Trade name	103	1

Patent licensing agreement	496	15
Developed technology	3,162	4
Customer relationships	12,397	11
	$ 16,405	

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The acquisition of CombiMatrix resulted in the recognition of $8.7 million of goodwill. The Company believes this goodwill consists principally of expected synergies to be realized by expanding the Company’s suite of genome management offerings designed to help patients and clinicians use genetic information as part of mainstream medical care. In accordance with ASC 350, goodwill will not be amortized but rather will be tested for impairment at least annually. Goodwill created as a result of the acquisition is not deductible for tax purposes.

5. Goodwill and intangible assets

Goodwill

Details of the Company's goodwill for the six months ended June 30, 2018 are as follows (in thousands):

	AltaVoice	Ommdom	Good Start	CombiMatrix	Total
Balance as of December 31, 2017	$ 9,432	$ 4,045	$24,406	$ 8,692	$46,575
Goodwill adjustment	—	—	642	—	642
Balance as of June 30, 2018	$ 9,432	$ 4,045	$25,048	$ 8,692	$47,217

Intangible Assets

The following table presents details of the Company's finite-lived intangible assets as of June 30, 2018 (in thousands):

	Cost	Accumulated Amortization	Net	Weighted Average Useful Life (in Years)	Weighted Average Estimated Remaining Useful Life (in Years)
Customer relationships	$23,763	$ (1,741)	$22,022	10.0	9.1
Developed technology	11,963	(2,213)	9,750	4.8	3.9
Non-compete agreement	286	(86)	200	5.0	3.5
Trade name	576	(209)	367	2.7	1.8
Patent licensing agreement	496	(21)	475	15.0	14.4
Favorable leases	247	(67)	180	2.0	1.6
	$37,331	$ (4,337)	$32,994	8.2	7.3

Acquisition-related intangibles included in the above table are finite-lived and are being amortized on an accelerated basis over their estimated lives, which approximates the pattern in which the economic benefits of the intangible assets are realized. Amortization expense was $2.5 million and $0.3 million for the six months ended June 30, 2018 and 2017, respectively. Intangible assets are carried at cost less accumulated amortization. Amortization expense is recorded to research and development, sales and marketing and general and administrative expense.

The following table summarizes the Company's estimated future amortization expense of intangible assets with finite lives as of June 30, 2018 (in thousands):

	Amount
2018	$2,530
2019	5,250
2020	5,525
2021	5,829
2022	4,123
Thereafter	9,737
	$32,994

6. Balance sheet components

Cash equivalents and marketable securities

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

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	$ 48,000	$ —	$ —	$ 48,000
Certificates of deposit	300	—	—	300
U.S. treasury notes	4,999	—	(8)	4,991
U.S. government agency securities	31,387	—	(101)	31,286
Convertible note	900	—	—	900
	$ 85,586	$ —	$ (109)	$ 85,477
Reported as:				
Cash equivalents				$ 42,694
Restricted cash				5,307
Marketable securities				37,476
Total cash equivalents, restricted cash and marketable securities				$ 85,477

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Money market funds	$ 5,998	$ —	$ —	$ 5,998
Certificates of deposit	300	—	—	300
U.S. treasury notes	12,010	—	(19)	11,991
U.S. government agency securities	46,451	—	(152)	46,299
	$ 64,759	$ —	$ (171)	$ 64,588
Reported as:				
Cash equivalents				$ 592
Restricted cash				5,406
Marketable securities				58,590
Total cash equivalents, restricted cash and marketable securities				$ 64,588

The total amount of unrealized losses at June 30, 2018 was $109,000. The total fair value of investments with unrealized losses at June 30, 2018 was $36.3 million. None of the available-for-sale securities held as of June 30, 2018 has been in a continuous unrealized loss position for more than one year. At June 30, 2018, unrealized losses on available-for-sale investments are not attributed to credit risk and are considered to be temporary. The Company believes it is more likely than not that investments in an unrealized loss position will be held until maturity or the recovery of the cost basis of the investment. To date, the Company has not identified any other-than-temporary declines in market value and thus has not recorded any impairment charges.

At June 30, 2018, the remaining contractual maturities of available-for-sale securities ranged from five to ten months. For the six months ended June 30, 2018, there were $23,000 realized losses on available-for-sale securities.

Property and equipment, net

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

	June 30, 2018	December 31, 2017
Leasehold improvements	$12,856	$12,623
Laboratory equipment	22,594	17,705
Equipment under capital lease	6,957	11,446
Computer equipment	4,087	4,023
Software	2,554	2,520
Furniture and fixtures	626	569
Automobiles	20	20
Construction-in-progress	1,098	965
Total property and equipment, gross	50,792	49,871
Accumulated depreciation and amortization	(21,976)	(19,530)
Total property and equipment, net	$28,816	$30,341

Depreciation expense was $2.3 million and $1.6 million for the three months ended June 30, 2018 and 2017, respectively, and $4.4 million and $3.2 million for the six months ended June 30, 2018 and 2017, respectively.

Other assets

Other assets consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Asset associated with investment in privately held company	$675	$ —
Capitalized financing costs	—	170
Security deposits	416	406
Prepaid license	238	—
Total other assets	$1,329	$ 576

Accrued liabilities

Accrued liabilities consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Liabilities associated with business combinations	$8,527	$ 9,497
Accrued compensation and related expenses	6,970	7,406
Accrued professional services	703	1,077
Liability associated with investment in privately held company	675	—
Accrued laboratory materials purchases	841	1,242
Deferred revenue	763	307
Lease incentive obligation, current	502	489
Accrued outsourced services	71	142
Other	3,514	2,582
Total accrued liabilities	$22,566	$ 22,742

Other long-term liabilities

Other long-term liabilities consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Lease incentive obligation, non-current	$3,587	$ 3,831
Deferred rent, non-current	5,376	5,153
Liabilities associated with business combination	—	3,779
Other non-current liabilities	822	677
Total other long-term liabilities	$9,785	$ 13,440

7. Fair value measurements

Financial assets and liabilities are recorded at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The authoritative guidance establishes a three-level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether such inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the reporting entity.

The three-level hierarchy for the inputs to valuation techniques is summarized as follows:

Level 1—Observable inputs such as quoted prices (unadjusted) for identical instruments in active markets.

Level 2—Observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-derived valuations whose significant inputs are observable.

Level 3—Unobservable inputs that reflect the reporting entity’s own assumptions.

The following tables set forth the fair value of the Company’s consolidated financial instruments that were measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 (in thousands):