# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended June 30, 2017**

**OR**

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

**For the transition period from _____________ to _____________**

**Commission File Number: 001-37894**

# FULGENT GENETICS, INC.

**(Exact Name of Registrant as Specified in its Charter)**

| **Delaware** | **81-2621304** |
|---|---|
| **( State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **4978 Santa Anita Avenue Temple City, CA** | **91780** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(626) 350-0537**

**(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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ (Do not check if a small reporting company) | Small 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, 2017, there were 17,740,491 outstanding shares of the registrant’s common stock.

## Table of Contents


| | | Page |
|---|---|---|
| **PART I.** | **FINANCIAL INFORMATION** | |
| Item 1. | Financial Statements (Unaudited) | 1 |
| | Condensed Consolidated Balance Sheets | 1 |
| | Condensed Consolidated Statements of Operations | 2 |
| | Consolidated Statements of Comprehensive Income (Loss) | 3 |
| | Condensed Consolidated Statements of Stockholders' Equity | 4 |
| | Condensed Consolidated Statements of Cash Flows | 5 |
| | Notes to Condensed Consolidated Financial Statements | 6 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 20 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 31 |
| Item 4. | Controls and Procedures | 33 |
| **PART II.** | **OTHER INFORMATION** | |
| Item 1. | Legal Proceedings | 34 |
| Item 1A. | Risk Factors | 34 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 57 |
| Item 6. | Exhibits | 57 |
| Signatures | | 58 |
| Exhibit Index | | 59 |

## PART I—FINANCIAL INFORMATION

### Item 1. Financial Statements.

**FULGENT GENETICS, INC.**
**Condensed Consolidated Balance Sheets**
**(in thousands, except par value data)**
**(unaudited)**

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 11,473 | $ 7,897 |
| Marketable securities | 17,400 | 12,971 |
| Trade accounts receivable, net of allowance for doubtful accounts of $133 and $151, respectively | 4,186 | 4,364 |
| Other current assets | 1,668 | 906 |
| Total current assets | 34,727 | 26,138 |
| Marketable securities, long term | 17,243 | 25,597 |
| Fixed assets, net | 6,737 | 6,234 |
| Deferred tax asset | 37 | 54 |
| Other long-term assets | 61 | 17 |
| Total assets | $ 58,805 | $ 58,040 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 1,820 | $ 2,756 |
| Accrued liabilities | 902 | 436 |
| Income tax payable | — | 124 |
| Accumulated losses of unconsolidated companies in excess of investment | 105 | — |
| Total current liabilities | 2,827 | 3,316 |
| Other long-term liabilities | 2 | 2 |
| Deferred tax liability | 243 | 243 |
| Total liabilities | 3,072 | 3,561 |
| Commitments and contingencies (Note 8) | | |
| Stockholders' equity | | |
| Common stock, $0.0001 par value per share, 50,000 and 200,000 shares authorized, 17,740 and 17,676 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively. | 2 | 2 |
| Preferred stock, $0.0001 par value per share, 1,000 shares authorized, no shares issued or outstanding at June 30, 2017 and December 31, 2016 | — | — |
| Additional paid-in capital | 110,746 | 109,734 |
| Accumulated other comprehensive loss | (68) | (103) |
| Accumulated deficit | (54,947) | (55,154) |
| Total stockholders' equity | 55,733 | 54,479 |
| Total liabilities and stockholders' equity | $ 58,805 | $ 58,040 |

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

**FULGENT GENETICS, INC.**
**Condensed Consolidated Statements of Operations**
**(in thousands, except per share data)**
**(unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Revenue | $ 4,640 | $ 3,971 | $ 9,946 | $ 7,411 |
| Cost of revenue | 1,879 | 1,411 | 3,738 | 2,715 |
| Gross profit | 2,761 | 2,560 | 6,208 | 4,696 |
| Operating expenses: | | | | |
| Research and development | 920 | 656 | 1,771 | 1,217 |
| Selling and marketing | 851 | 477 | 1,742 | 778 |
| General and administrative | 1,140 | 457 | 2,626 | 2,346 |
| Total operating expenses | 2,911 | 1,590 | 6,139 | 4,341 |
| Operating income (loss) | (150) | 970 | 69 | 355 |
| Interest and other income (expense) | 120 | (5,462) | 239 | (5,449) |
| Income (loss) before income taxes and equity in net loss of affiliate | (30) | (4,492) | 308 | (5,094) |
| Provision for (benefit from) income taxes | (110) | — | (4) | — |
| Income (loss) before equity in net loss of affiliate | 80 | (4,492) | 312 | (5,094) |
| Equity in net loss of affiliate | (105) | — | (105) | — |
| Income (loss) from continuing operations | (25) | (4,492) | 207 | (5,094) |
| Income (loss) from discontinued operations | — | (18) | — | 41 |
| Net income (loss) | $ (25) | $ (4,510) | $ 207 | $ (5,053) |
| | | | | |
| Continuing operations: | | | | |
| Income (loss) per common share: | | | | |
| Basic | $ (0.00) | $ (0.66) | $ 0.01 | $ (0.72) |
| Diluted | $ (0.00) | $ (0.66) | $ 0.01 | $ (0.72) |
| | | | | |
| Weighted-average common shares: | | | | |
| Basic | 17,711 | 12,438 | 17,694 | 12,258 |
| Diluted | 17,711 | 12,438 | 18,156 | 12,258 |

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

**FULGENT GENETICS, INC.**
**Consolidated Statements of Comprehensive Income (Loss)**
**(in thousands)**
**(unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Net income (loss)** | $ (25) | $ (4,510) | $ 207 | $ (5,053) |
| **Other comprehensive income (loss), net of tax:** | | | | |
| Net unrealized gain on marketable securities | 17 | — | 35 | — |
| **Comprehensive income (loss)** | $ (8) | $ (4,510) | $ 242 | $ (5,053) |

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

**FULGENT GENETICS, INC.**
**Condensed Consolidated Statements of Stockholders' Equity**
**(in thousands)**
**(unaudited)**

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Loss | Accumulated Deficit | Total Stockholders' Equity |
| **Balance at December 31, 2016** | **17,676** | **$ 2** | **$ 109,734** | **$ (103)** | **$ (55,154)** | **$ 54,479** |
| Equity-based compensation | — | — | 989 | — | — | 989 |
| Exercise of common stock options | 60 | — | 23 | — | — | 23 |
| Restricted stock awards | 4 | — | — | — | — | — |
| Other comprehensive income, net | — | — | — | 35 | — | 35 |
| Net income | — | — | — | — | 207 | 207 |
| **Balance at June 30, 2017** | **17,740** | **$ 2** | **$ 110,746** | **$ (68)** | **$ (54,947)** | **$ 55,733** |

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

**FULGENT GENETICS, INC.**
**Condensed Consolidated Statements of Cash Flows**
**(in thousands)**
**(unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2017** | **2016** |
| **Cash flow from operating activities:** | | |
| Net income (loss) | $ 207 | $ (5,053) |
| Income (loss) from discontinued operations | — | 41 |
| Income (loss) from continuing operations | 207 | (5,094) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Equity-based compensation | 989 | 1,625 |
| Depreciation and amortization | 817 | 447 |
| Loss on disposal of fixed asset | 5 | — |
| Amortization of premium of marketable securities | 196 | — |
| Provision for bad debt | — | (26) |
| Fair value adjustment recorded upon issuance of Class D-2 preferred units | — | 5,472 |
| Equity in net loss of affiliate | 105 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 178 | (649) |
| Other current assets | (825) | (202) |
| Accounts payable | (555) | 568 |
| Taxes payable | (123) | — |
| Accrued liabilities | 1,078 | 243 |
| Cash provided by continuing operations | 2,072 | 2,384 |
| Cash used in discontinued operations | — | (31) |
| Net cash provided by operating activities | 2,072 | 2,353 |
| **Cash flow from investing activities:** | | |
| Purchases of fixed assets | (1,517) | (563) |
| Sale of marketable securities | 3,781 | — |
| Purchase of marketable securities | (3,582) | — |
| Maturities of marketable securities | 3,600 | — |
| Net cash provided by (used in) investing activities | 2,282 | (563) |
| **Cash flow from financing activities:** | | |
| Cash distributed in split-off of Pharma business | — | (159) |
| Payment of initial public offering costs | (801) | (1,072) |
| Proceeds from issuance of Class D-2 preferred units | — | 27,165 |
| Repurchase and retirement of Class D-1 preferred and Class D common units | — | (11,977) |
| Issuance costs of Class D-2 preferred units | — | (185) |
| Proceeds from exercise of stock options | 23 | — |
| Net cash provided by (used in) financing activities | (778) | 13,772 |
| **Net (decrease) increase in cash** | 3,576 | 15,562 |
| **Cash balance at beginning of period** (including $0 and $9 at January 1, 2017 and 2016, respectively, from discontinued operations) | 7,897 | 498 |
| **Cash balance at end of period** | $ 11,473 | $ 16,060 |
| **Supplemental disclosures of cash flow information:** | | |
| Income taxes paid | $ 756 | $ — |
| **Supplemental disclosures of non-cash investing and financing activities:** | | |
| Fixed assets included in accounts payable | $ 943 | $ 2,409 |
| Deferred initial public offering costs included in accounts payable | $ — | $ 1,359 |

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

**Note 1. Overview and Basis of Presentation**

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These financial statements include the assets, liabilities, revenues and expenses of all wholly-owned subsidiaries and entities in which the Company has a controlling financial interest or is deemed to be the primary beneficiary. In determining whether the Company is the primary beneficiary of an entity, the Company applies a qualitative approach that determines whether it has both (1) the power to direct the economically significant activities of the entity and (2) the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to that entity. The Company uses the equity method to account for its investments in entities that it does not control, but in which it has the ability to exercise significant influence over operating and financial policies. All significant intercompany accounts and transactions are eliminated from the accompanying condensed consolidated financial statements.

***Nature of the Business***

Fulgent Genetics, Inc., together with its subsidiaries (collectively referred to as the "Company," unless otherwise noted or the context otherwise requires), is a growing technology company with an initial focus on offering comprehensive genetic testing to provide physicians with clinically actionable diagnostic information they can use to improve the quality of patient care (the "Diagnostics business"). The Company has developed a proprietary technology platform that allows it to offer a broad and flexible test menu and continually expand and improve its proprietary genetic reference library. The Company's current test menu offers single-gene tests and pre-established, multi-gene, disease-specific panels that collectively test for many genetic conditions, including various cancers, cardiovascular diseases, neurological disorders and pediatric conditions. The Company's existing customer base consists primarily of hospitals and medical institutions, which are frequent and high-volume users of genetic tests and which typically pay the Company directly for its tests.

***Background and Reorganization***

The Company was incorporated in the State of Delaware on May 13, 2016. On August 2, 2016, pursuant to the approval of the board of directors of the Company, the Company changed its name from Fulgent Diagnostics, Inc. to Fulgent Genetics, Inc. On September 30, 2016, the Company completed a reorganization pursuant to which Fulgent Therapeutics LLC, a California limited liability company (referred to, together with its former subsidiary unless otherwise noted or the context otherwise requires, as "Fulgent LLC"), became a wholly owned subsidiary of the Company (the "Reorganization"). Prior to the Reorganization, the Company had no material assets and had not conducted any activities other than those incidental to its incorporation and preparation for the initial public offering of its common stock. Following the Reorganization, the Company is a holding company with no material assets other than 100% of the equity interests in Fulgent LLC and its other subsidiaries, and Fulgent LLC is considered the Company's predecessor for accounting purposes and its financial statements for all periods prior to completion of the Reorganization constitute the Company's historical financial statements.

For purposes of these notes and the accompanying condensed consolidated financial statements: (i) Fulgent LLC's operating agreement, as amended from time to time, is referred to as the "Operating Agreement;" (ii) Fulgent LLC's equity holders are referred to as "members;" (iii) Fulgent LLC's authorized, issued and outstanding equity interests prior to the Reorganization are referred to as "units" and consisted of Class D common units and Class D-1 and Class D-2 preferred units; (iv) certain of Fulgent LLC's Class D common units outstanding prior to the Reorganization constituted profits interests (which are sometimes referred to simply as "profits interests"), which are a type of equity-based award containing a participation threshold (which is sometimes referred to as a "profits interest threshold") that entitled the recipient of the award to participate in the value of Fulgent LLC only to the extent it appreciated from and after the grant date of the award; and (v) prior to the Reorganization, Fulgent LLC was managed by its Manager, Ming Hsieh, who was also Fulgent LLC's controlling equity holder. In the Reorganization, each outstanding 7.6 units of Fulgent LLC were cancelled in exchange for one share of the Company's common stock, such that (i) all outstanding Class D common units of Fulgent LLC (including profits interests) were cancelled in exchange for an aggregate of 4,059,900 shares of the Company's common stock; (ii) all outstanding Class D-1 preferred units of Fulgent LLC were cancelled in exchange for an aggregate of 6,760,733 shares of the Company's common stock; (iii) all outstanding Class D-2 preferred units were cancelled in exchange for an aggregate of 2,025,623 shares of the Company's common stock; (iv) all outstanding options to acquire common units of Fulgent LLC were cancelled in exchange for equivalent options to acquire up to an aggregate of 591,112 shares of the Company's common stock, and all such options became immediately exercisable to the extent vested; and (v) all outstanding restricted share units relating to common units of Fulgent LLC were cancelled in exchange for equivalent restricted stock units ("RSUs") relating to 65,789 shares of the Company's common stock. The Reorganization was accounted for as a common control transaction and no gain or loss was recorded.

***Unaudited Interim Financial Information***

The accompanying interim condensed consolidated financial statements have been prepared on the same basis as the Company's audited consolidated financial statements as of and for the fiscal year ended December 31, 2016, which are included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2017 (the "2016 Annual Report"), and, in the opinion of management, include all adjustments, which are normal and recurring in nature, necessary for a fair presentation of the Company's financial position and results of operations. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full fiscal year or any other period. The accompanying condensed consolidated balance sheet as of December 31, 2016 has been derived from the Company's audited consolidated financial statements at that date but does not include all of the disclosures required by U.S. GAAP. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the Company's audited consolidated financial statements included in the 2016 Annual Report, including the notes thereto.

***Discontinued Operations***

The Company historically conducted two lines of business: the Diagnostics business, which the Company conducted directly and which is the only business it is presently pursuing, and its former pharmaceutical business (the "Pharma business"), which was conducted by its former wholly owned subsidiary, Fulgent Pharma LLC ("Fulgent Pharma"). In addition, Fulgent LLC's equity interests were separated into two series based on these two lines of business, with the holders of Fulgent LLC's Class D preferred units and Class D voting and non-voting common units (collectively, the "Class D units") having economic rights based on the Diagnostics business, and the holders of Fulgent LLC's Class P preferred units and Class P voting and non-voting common units (collectively, the "Class P units") having economic rights based on the Pharma business. These Class D units and Class P units were intended to "track," or reflect, the relative performance of the Diagnostics business and the Pharma business, respectively.

In April 2016, Fulgent LLC's Operating Agreement was amended and restated to provide for the distribution of Fulgent Pharma in full redemption and cancellation of the Class P units. On April 4, 2016, Fulgent LLC completed the split-off of Fulgent Pharma and the Pharma business by redeeming all of the then-outstanding Class P units and distributing to each holder of Class P units substantially identical shares of Fulgent Pharma and causing Fulgent Pharma to assume all then-outstanding options to purchase Class P units. All Class P units were immediately cancelled upon redemption. The split-off of the Pharma business was a pro-rata distribution to all of the holders of Class P units, but did not involve the holders of Fulgent LLC's Class D units. The Manager and controlling equity holder of Fulgent LLC prior to the Reorganization, Mr. Hsieh, is the Manager and controlling equity holder of Fulgent Pharma. As a result, the split-off of the Pharma business was accounted for as a common control transaction and the recorded amount of Fulgent Pharma's net assets was transferred to the holders of Class P units and no gain or loss was recorded.

The financial condition and results of the Pharma business were included in the accompanying consolidated financial statements as discontinued operations for all periods presented. The Class P common and preferred units had the right to participate in earnings and distributions of Fulgent Pharma but were not obligated to fund losses. As a result, in periods of Pharma business net loss, losses were allocated to the holders of Class P common units subject to profits interest thresholds, as they were determined to be the most subordinate unit.

The split-off of the Pharma business is presented as discontinued operations in the accompanying condensed consolidated financial statements for all periods presented.

The major components of statements of operations data comprising the income (loss) from discontinued operations are as follows:

| | Three months Ended June 30, | | Six months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Operating expenses: | | | | |
| Research and development | $ — | $ 18 | $ — | $ 350 |
| General and administrative | — | — | — | 9 |
| Total operating expenses | — | 18 | — | 359 |
| Operating income (loss) | — | (18) | — | (359) |
| Other income | — | — | — | 400 |
| Income (loss) | $ — | $ (18) | $ — | $ 41 |
| Income (loss) allocated to Class P common units - profit interests | $ — | $ (18) | $ — | $ — |
| Income (loss) allocated to Class P common units | $ — | $ — | $ — | $ 23 |
| Income (loss) allocated to Class P preferred units | $ — | $ — | $ — | $ 18 |
| Income (loss) per Class P common units - profit interests, basic and diluted | $ — | $ (0.07) | $ — | $ — |
| Income (loss) per Class P common units, basic and diluted | $ — | $ — | $ — | $ 0.00 |
| Income (loss) per Class P preferred units, basic and diluted | $ — | $ — | $ — | $ 0.00 |
| Weighted-average Class P common units - profit interests, basic and diluted | — | 264 | — | 3,132 |
| Weighted-average Class P common units, basic and diluted | — | 1,714 | — | 20,357 |
| Weighted-average Class P preferred units, basic and diluted | — | 2,242 | — | 26,621 |

**Note 2. Summary of Significant Accounting Policies**

See the summary of the Company's significant accounting policies set forth in the notes to its consolidated financial statements included in the 2016 Annual Report. Except as described below, no such policies materially changed during the six months ended June 30, 2017.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting periods. These estimates, judgments and assumptions are based on historical data and experience available at the date of the accompanying condensed consolidated financial statements, as well as various other factors management believes to be reasonable under the circumstances. Actual results could differ from these estimates.

On an on-going basis, management evaluates its estimates, primarily those related to: (i) revenue recognition criteria, (ii) accounts receivable and allowances for doubtful accounts, (iii) the useful lives of fixed assets, (iv) estimates of tax liabilities and (v) equity method investments.

***Reporting Segment and Geographic Information***

Reporting segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company views its operations and manages its business in one reporting segment.

***Concentration of Customers***

In certain periods, a small number of customers has accounted for a significant portion of the Company's revenue. In the three and six months ended June 30, 2017, after aggregating customers that are under common control or are affiliates, two customers contributed 13% and 12% of our revenue and three customers contributed 12%, 11% and 11% of our total revenue in the respective periods.

***Emerging Growth Company***

Pursuant to the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), a company constituting an "emerging growth company" is, among other things, entitled to rely upon certain reduced reporting requirements. The Company is an emerging growth company, but has irrevocably elected not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards. As a result, the Company will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for public companies that are not emerging growth companies.

***Equity Method Investments***

The Company uses the equity method to account for investments in entities that it does not control, but in which it has the ability to exercise significant influence over operating and financial policies. The Company's proportionate share of the net income or loss of these companies is included in consolidated net earnings. Judgment regarding the level of influence over each equity method investment includes considering key factors such as the Company's ownership interest, representation on the board of directors or other management body and participation in policy-making decisions.

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a comprehensive new revenue recognition model designed to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606)-Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which further clarifies the implementation guidance on principal versus agent considerations contained in ASU 2014-09. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606)-Identifying Performance Obligations and Licensing, which further clarifies the implementation guidance relating to identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606)-Narrow-Scope Improvements and Practical Expedients, which further clarifies guidance on collectability, noncash consideration, presentation of sales tax, practical expedients and transition. In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which makes minor corrections or minor improvements to the codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. These standards, pursuant to ASU No. 2015-14, Revenue from Contracts with Customers-Deferral of the Effective Date (Topic 606) issued by the FASB in August 2015, will be effective for annual periods (including interim periods) beginning after December 15, 2017. The Company has commenced its assessment of these new standards, developed a project plan to guide the implementation, and is evaluating the impact these new standards will have on its consolidated financial statements. The standard can be applied either retrospectively to each period presented or as a cumulative effect adjustment as of the date of adoption. The Company plans to implement these standards effective January 1, 2018 based on the modified retrospective method and continues to evaluate the effect this ASU will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments, including a provision that requires equity investments (except for investments accounted for under the equity method of accounting) to be measured at fair value, with changes in fair value recognized in current earnings. The ASU is effective for the Company in the first quarter of 2018, with early adoption permitted. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The update is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. This guidance will become

effective for interim and annual reporting periods beginning with the year ending December 31, 2019. The standard requires the use of a modified retrospective transition approach for existing leases. Early adoption is permitted. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments. ASU 2016-13 replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. The update is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The standard will be effective for annual reporting periods beginning after December 15, 2019, including interim periods within those reporting periods. Early adoption is permitted. The Company has not yet evaluated the effect this ASU will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The standard clarifies the way certain cash receipts and cash payments are classified with the objective of reducing the existing diversity in practice. The standard is effective for fiscal years and interim periods beginning after December 15, 2017. Early adoption is permitted for all periods beginning after December 15, 2016. The Company is currently evaluating the effect this ASU will have on its consolidated financial statements and related disclosures.

In March 2017, the FASB issued ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20). Under the ASU, entities must amortize to the earliest call date the premium on certain purchased callable debt securities. The ASU does not require any accounting change for debt securities held at a discount. The guidance calls for a modified retrospective transition approach under which a cumulative-effect adjustment will be made to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The ASU is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted for all entities, including in an interim period. The Company has not yet evaluated the effect this ASU will have on its consolidated financial statements and related disclosures.

**Note 3. Marketable Securities**

The Company's marketable securities consisted of the following:

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | **Amortized Cost Basis** | **Unrealized Gains** | **Unrealized Losses** | **Aggregate Fair Value** |
| | (in thousands) | | | |
| **Marketable securities:** | | | | |
| Money market accounts | $ 803 | $ — | $ — | $ 803 |
| Corporate debt securities | 34,752 | 1 | (110) | 34,643 |
| Less: Cash equivalents | (803) | — | — | (803) |
| Total marketable securities | $ 34,752 | $ 1 | $ (110) | $ 34,643 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | **Amortized Cost Basis** | **Unrealized Gains** | **Unrealized Losses** | **Aggregate Fair Value** |
| | (in thousands) | | | |
| **Marketable securities:** | | | | |
| Money market accounts | $ 1,580 | $ — | $ — | $ 1,580 |
| Corporate debt securities | 38,728 | 3 | (163) | 38,568 |
| Less: Cash equivalents | (1,580) | — | — | (1,580) |
| Total marketable securities | $ 38,728 | $ 3 | $ (163) | $ 38,568 |

As of June 30, 2017 and December 31, 2016, the contractual maturities of the Company's marketable securities less than one year were $17.4 million and $13.0 million, respectively, and the contractual maturities of the Company's marketable securities greater than one year and less than five years were $17.2 million and $25.6 million, respectively. Management determined that the gross unrealized losses of $109,000 on the Company's marketable securities as of June 30, 2017 were temporary in nature. Gross unrealized losses on the Company's marketable securities were $163,000 as of December 31, 2016. The Company currently does not intend to sell these securities prior to maturity and does not consider these investments to be other-than-temporarily impaired as of June 30, 2017.

**Note 4. Fair Value Measurements**

The authoritative guidance on fair value measurements establishes a framework with respect to measuring assets and liabilities at fair value on a recurring basis and non-recurring basis. Under the framework, fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as of the measurement date. The framework also establishes a three-tier hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of our Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors market participants would use in valuing the asset or liability and are developed based on the best information available in the circumstances. The hierarchy consists of the following three levels:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.

Level 2: Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable inputs for the asset or liability.

The following table presents information about our financial assets measured at fair value on a recurring basis, based on the three-tier fair value hierarchy:

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| **Marketable securities:** | | | | |
| Corporate debt securities | $ 34,643 | $ — | $ 34,643 | $ — |
| Money market accounts | 803 | 803 | — | — |
| Total marketable securities | $ 35,446 | $ 803 | $ 34,643 | $ — |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| | (in thousands) | | | |
| **Marketable securities:** | | | | |
| Corporate debt securities | $ 38,568 | $ — | $ 38,568 | $ — |
| Money market accounts | 1,580 | 1,580 | — | — |
| Total marketable securities | $ 40,148 | $ 1,580 | $ 38,568 | $ — |

The Company's Level 1 assets include money market instruments and are valued based upon observable market prices. Level 2 assets consist of marketable investment securities consisting of corporate bonds. Level 2 securities are valued based upon observable inputs that include reported trades, broker/dealer quotes, bids and offers. As of June 30, 2017, the Company had no investments that were measured using unobservable (Level 3) inputs.

There were no transfers between fair value measurement levels during the three months ended June 30, 2017.

Gross unrealized gains or losses for cash equivalents and marketable securities as of June 30, 2017 were not material. As of June 30, 2017 there were no securities that were in an unrealized loss position for more than 12 months.

**Note 5. Fixed Assets**

Major classes of fixed assets consisted of the following:

| | Useful Lives | June 30, 2017 | December 31, 2016 |
|---|---|---|---|
| | | (in thousands) | |
| Computer hardware | 3 Years | $ 1,375 | $ 1,293 |
| Computer software | 3 Years | 354 | 354 |
| Machinery and equipment | 5 Years | — | 177 |
| Medical lab equipment | 5 Years | 4,883 | 4,678 |
| General equipment | 3 Years | — | 59 |
| Furniture and fixtures | 5 Years | 86 | 86 |
| Leasehold improvements | Shorter of lease term or estimated useful life | 630 | 520 |
| Assets not yet placed in service | | 2,262 | 1,114 |
| Total | | 9,590 | 8,281 |
| Less: Accumulated depreciation | | (2,853) | (2,047) |
| Property and equipment, net | | $ 6,737 | $ 6,234 |

Depreciation expense on fixed assets totaled $405,000 and $248,000 for the three months ended and $817,000 and $447,000 for the six months ended June 30, 2017 and 2016, respectively.

**Note 6. Other Current Assets**

Other current assets consisted of the following:

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| | (in thousands) | |
| Reagents | $ 279 | $ 322 |
| Prepaid expenses | 558 | 375 |
| Prepaid income taxes | 636 | — |
| Marketable securities interest receivable | 195 | 209 |
| Total | $ 1,668 | $ 906 |

Reagents are used for DNA sequencing applications in the Company’s DNA sequencing equipment.

**Note 7. Reporting Segment and Geographic Information**

The Company views its operations and manages its business in one reporting segment. All long-lived assets were located in the United States during the three and six months ended June 30, 2017 and 2016. Revenue by region was as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | (in thousands) | |
| **Revenue:** | | | | |
| United States | $ 2,286 | $ 2,232 | $ 4,377 | $ 4,137 |
| Foreign: | | | | |
| Canada | 1,148 | 871 | 2,231 | 1,739 |
| China | 522 | — | 2,047 | — |
| Other Countries | 684 | 868 | 1,291 | 1,535 |
| Total | $ 4,640 | $ 3,971 | $ 9,946 | $ 7,411 |

## Note 8. Commitments and Contingencies

### *Operating Leases*

The Company has commitments under various non-cancelable operating leases with varying terms through August 2022. The Company has options to renew these leases for two or three years after their expiration.

The Company's headquarters is located in Temple City, California, which is comprised of various corporate offices and a laboratory certified under the Clinical Laboratory Improvement Amendments of 1988 ("CLIA"), accredited by the College of American Pathologists ("CAP") and licensed by the State of California Department of Public Health ("CA DPH"). A second office located in Atlanta, Georgia is used for certain research and development, customer service, report generation and other administrative functions.

Rent expense was approximately $61,000 and $59,000 for the three months ended and $114,000 and $125,000 for the six months ended June 30, 2017 and 2016, respectively.

### *FF Gene Biotech*

See Note 14 for a description of the Company's commitments related to its joint venture, FF Gene Biotech (as defined below).

### *Purchase Obligations*

As of June 30, 2017, the Company had purchase obligations of $3.1 million for reagents and equipment.

### *Contingencies*

From time to time, the Company may be subject to legal proceedings and claims arising in the ordinary course of business. Management does not believe that the outcome of any of these matters will have a material effect on the Company's consolidated financial position, results of operations or cash flows.

## Note 9. Stockholders' Equity

*Components of Comprehensive Income (Loss)*

Comprehensive income (loss) consists of market value adjustments that represent unrealized holding gains (losses) on marketable securities, net of taxes. The tax effects related to unrealized holding gains (losses) on marketable securities were $7,000 and $17,000 for the three and six months ended June 30, 2017, respectively, and zero for the three and six months ended June 30, 2016, respectively.

### *Certificate of Incorporation*

In accordance with the Company's amended certificate of incorporation, the Company is authorized to issue 50,000,000 shares of common stock, with a par value of $0.0001 per share, and 1,000,000 shares of preferred stock, with a par value of $0.0001 per share. In May 2017, the Company amended its certificate of incorporation to reduce its authorized shares from 200,000,000 to 50,000,000. Holders of the Company's common stock are entitled to one vote for each share held on all matters submitted to a vote of its stockholders. Holders of the Company's common stock have no cumulative voting rights. Further, as of June 30, 2017, holders of the Company's common stock have no preemptive, conversion, redemption or subscription rights and there are no sinking fund provisions applicable to the Company's common stock. Upon liquidation, dissolution or winding-up of the Company, holders of the Company's common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation preferences of any outstanding shares of preferred stock. Subject to preferences that may be applicable to any outstanding shares of preferred stock, holders of the Company's common stock are entitled to receive dividends, if any, as may be declared from time to time by the Company's board of directors. As of June 30, 2017, there were no outstanding shares of preferred stock.

## Note 10. Equity-Based Compensation

Equity-based compensation expense for awards granted to employees is measured based on the fair value of the award on the grant date and recognized in the Company's consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally, the vesting period of the award). Compensation expense for awards with both a service and performance condition is recognized over the period required to achieve both conditions using the accelerated attribution method. The Company estimates the fair value of stock options using the Black-Scholes option valuation model. The

Company measures the fair value of RSUs and share awards based on the fair value of the underlying shares on the date of grant. For awards of Fulgent LLC profits interests that were granted before the Reorganization, the fair value was measured using the Black-Scholes option valuation model.

Prior to the Reorganization, the Company's employees and other service providers were granted awards under the Fulgent Therapeutics LLC Amended and Restated 2015 Equity Incentive Plan (the "2015 Plan"), which provided for the issuance of equity-based awards to eligible employees, directors and consultants. These awards generally consisted of options, RSUs and profits interests. Options granted under the 2015 Plan typically vested over four years and expired 10 years from the date of grant, and were not exercisable, whether or not vested, until the earlier of a liquidity event or incorporation, each as defined in the 2015 Plan. Because the options were subject to both a service condition (as set forth in their vesting schedules) and a performance condition (the occurrence of a qualifying liquidity event or incorporation), no equity-based compensation expense was recognized for these options until the performance condition was deemed to have been satisfied upon completion of the Reorganization. RSUs granted under the 2015 Plan typically vested over four years. Awards of profits interests were typically fully vested at the date of grant.

In connection with the Reorganization, the Company approved its 2016 Omnibus Incentive Plan (the "2016 Plan"), which provides for the issuance of up to an aggregate of 2,038,480 shares of the Company's common stock pursuant to awards granted to eligible employees, directors and consultants. The vesting period, contractual life and other material terms and conditions of awards granted under the 2016 Plan are generally not significantly different from the terms and conditions of awards granted under the 2015 Plan.

The Company has included equity-based compensation expense as part of cost of revenue and operating expenses in the accompanying condensed consolidated statements of operations as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Cost of revenue | $ 62 | $ — | $ 208 | $ — |
| Research and development | 197 | — | 408 | — |
| Selling and marketing | 51 | — | 120 | — |
| General and administrative | 114 | — | 253 | 1,625 |
| Total | $ 424 | $ — | $ 989 | $ 1,625 |

No equity-based compensation expense related to the Pharma business and included in discontinued operations was recorded in the three or six months ended June 30, 2017 or 2016.

***Award Activity***

The below discussions of equity-based award activity, including all share numbers and weighted-average exercise prices, have been adjusted to give retroactive effect to the Reorganization as if it occurred at the beginning of each period presented.

*Option Awards*

The following table summarizes activity for options to acquire shares of the Company's common stock in the six months ended June 30, 2017:

| | Number of Shares Subject to Options (in thousands) | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Balance at December 31, 2016 | 556 | $ 0.85 | 9.0 | $ 5,976 |
| Authorized | — | | | |
| Granted | — | $ — | | |
| Exercised | (60) | $ 0.38 | | |
| Canceled | (9) | $ 5.71 | | |
| Balance at June 30, 2017 | 487 | 0.82 | 8.5 | $ 2,819 |
| Exercisable as of June 30, 2017 | 155 | $ 0.68 | 8.5 | $ 909 |

As of June 30, 2017, the remaining unrecognized compensation expense of $850,000 related to outstanding stock options is expected to be recognized over a weighted-average period of 2.3 years.

*RSU Awards*

The following table summarizes activity for RSUs relating to shares of the Company's common stock in the six months ended June 30, 2017:

| | Number of Shares (in thousands) | | Weighted-Average Grant-Date Fair Value |
|---|---|---|---|
| Balance at December 31, 2016 | 362 | $ | 9.69 |
| Granted | 223 | $ | 10.13 |
| Vested and settled | (4) | $ | 9.42 |
| Forfeited | (33) | $ | 9.24 |
| Balance at June 30, 2017 | 548 | $ | 9.78 |

As of June 30, 2017, the remaining unrecognized compensation expense of $4.7 million related to outstanding RSUs is expected to be recognized over a weighted-average period of 3.5 years.

**Note 11. Income Taxes**

Prior to the Reorganization, Fulgent LLC was organized as a limited liability company and treated as a partnership for income tax purposes. All taxable income or loss and tax credits generally were reflected in the personal income tax returns of Fulgent LLC's members. Accordingly, no provision for federal or state income taxes was provided in the accompanying condensed consolidated financial statements prior to the Reorganization.

In order to determine the Company's quarterly provision for income taxes, the Company used an estimated annual effective tax rate that is based on expected annual income and statutory tax rates in the various jurisdictions in which the Company operates. Certain significant or unusual items are separately recognized in the quarter during which they occur and can cause the effective tax rate to vary from quarter to quarter.

The Company's income tax benefit from continuing operations for the three and six months ended June 30, 2017 was $110,000 and $4,000, respectively. Income tax benefit for the three and six months ended June 30, 2017 is based on the Company's estimated annual effective tax rate for the full fiscal year ending December 31, 2017, adjusted by discrete items recognized during the period. For the three and six months ended June 30, 2017, the Company's recognized effective tax rate differs from the U.S. federal statutory rate primarily due to the effect of state income taxes, certain expenses or adjustments related to equity-based compensation.

The Company has outstanding non-qualified stock options to acquire the Company's common stock and outstanding RSUs relating to the Company's common stock. Upon the exercise of these stock options and the vesting of these RSUs, the Company is entitled to an income tax deduction in the amount of the income recognized by the option or RSU holder, as applicable, subject to possible limitations imposed by Section 162(m) of the Internal Revenue Code and so long as the Company withholds the appropriate taxes with respect to such income (if required) and the total compensation of the option or RSU holder, as applicable, is deemed reasonable in amount.

The Company will file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions for the year ending December 31, 2017. As of June 30, 2017, there were no pending tax audits in any jurisdiction.

**Note 12. Income (Loss) per Share**

Income (loss) per share for the three and six months ended June 30, 2017 and 2016 was computed as if the Reorganization had occurred at the beginning of each period presented, with the exception of Class P units, as they are not subject to the Reorganization. The following is a reconciliation of the basic and diluted income (loss) per share computations:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Continuing Operations | Discontinued Operations | Total | Continuing Operations | Discontinued Operations | Total |
| | (in thousands, except per share data) | | | | | |
| Income (loss) | $ (25) | — | $ (25) | $ (4,492) | $ (18) | $ (4,510) |
| Deemed dividend on redemption of Class D-1 preferred units | | | | $ (3,727) | | $ (3,727) |
| Income (loss) allocable to common stockholders | $ (25) | — | $ (25) | $ (8,219) | $ (18) | $ (8,237) |
| Income (loss) allocated to common stockholders | $ (25) | | | $ (8,219) | | |
| Income (loss) allocated to Class P common units - profit interests | | $ — | | | $ (18) | |
| Income (loss) allocated to Class P common units | | $ — | | | $ — | |
| Income (loss) allocated to Class P preferred units | | $ — | | | $ — | |
| Weighted-average common shares—outstanding, basic | 17,711 | | | 12,438 | | |
| Weighted-average common shares—outstanding, diluted | 17,711 | | | 12,438 | | |
| Weighted-average Class P common units - profit interests, basic and diluted | | — | | | 264 | |
| Weighted-average Class P common units, basic and diluted | | — | | | 1,714 | |
| Weighted-average Class P preferred units, basic and diluted | | — | | | 2,242 | |
| Income (loss) per Class P common units - profit interests, basic and diluted | | — | | | $ (0.07) | |
| Income (loss) per Class P common units, basic and diluted | | — | | | $ — | |
| Income (loss) per Class P preferred units, basic and diluted | | — | | | $ — | |
| Income (loss) per common share from continuing operations, basic | $ (0.00) | | | $ (0.66) | | |
| Income (loss) per common share from continuing operations, diluted | $ (0.00) | | | $ (0.66) | | |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Continuing Operations | Discontinued Operations | Total | Continuing Operations | Discontinued Operations | Total |
| | (in thousands, except per share data) | | | | | |
| Income (loss) | $ 207 | — | $ 207 | $ (5,094) | $ 41 | $ (5,053) |
| Deemed dividend on redemption of Class D-1 preferred units | | | | $ (3,727) | | $ (3,727) |
| Income (loss) allocable to common stockholders | $ 207 | — | $ 207 | $ (8,821) | $ 41 | $ (8,780) |
| Income (loss) allocated to common stockholders | $ 207 | | | $ (8,821) | | |
| Income (loss) allocated to Class P common units - profit interests | | $ — | | | $ — | |
| Income (loss) allocated to Class P common units | | $ — | | | $ 23 | |
| Income (loss) allocated to Class P preferred units | | $ — | | | $ 18 | |
| Weighted-average common shares—outstanding, basic | 17,694 | | | 12,258 | | |
| Weighted-average common shares—outstanding, diluted | 18,156 | | | 12,258 | | |
| Weighted-average Class P common units - profit interests - outstanding, basic and diluted | | — | | | 3,132 | |
| Weighted-average Class P common units outstanding, basic and diluted | | — | | | 20,357 | |
| Weighted-average Class P preferred units outstanding, basic and diluted | | — | | | 26,621 | |
| Income (loss) per Class P common units - profit interests, basic and diluted | | $ — | | | $ — | |
| Income (loss) per Class P common units, basic and diluted | | $ — | | | $ 0.00 | |
| Income (loss) per Class P preferred units, basic and diluted | | $ — | | | $ 0.00 | |
| Income (loss) per common share from continuing operations, basic | $ 0.01 | | | $ (0.72) | | |
| Income (loss) per common share from continuing operations, diluted | $ 0.01 | | | $ (0.72) | | |

On April 4, 2016, Fulgent LLC completed the split-off of the Pharma business. The financial condition and results of the Pharma business are included in the accompanying condensed consolidated financial statements as discontinued operations for all periods presented. The split-off of the Pharma business was effected with a pro-rata distribution to all of the holders of Class P units. As a result, on April 4, 2016, Fulgent LLC redeemed all Class P preferred and common units, distributed to each holder of such units substantially identical units of Fulgent Pharma, and caused Fulgent Pharma to assume all then-outstanding options to acquire Class P common units.

The following securities have been excluded from the calculation of diluted income (loss) per share because their effect would have been anti-dilutive:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Continuing Operations | Discontinued Operations | Continuing Operations | Discontinued Operations | Continuing Operations | Discontinued Operations | Continuing Operations | Discontinued Operations |
| | (in thousands) | | | | (in thousands) | | | |
| Options | 487 | — | 550 | | 21 | — | 448 | |
| RSUs | 487 | | — | | 15 | | — | |
| Class P unit options | — | — | — | 1,810 | — | — | — | 1,810 |

The anti-dilutive shares described above were calculated using the treasury stock method. During the three months ended June 30, 2017 and the three and six months ended June 30, 2016, the Company had outstanding stock options that were excluded from the weighted-average share calculation for continuing operations due to the Company’s net loss position. During the three and six months

ended June 30, 2016, the Company had Class P unit options that were excluded from the weighted-average share calculation for discontinued operations because the units were contingently exercisable.

**Note 13. Related Party**

Dr. Yun Yen, who is a member of the Company's Board of Directors and a stockholder, serves as the President and Chairman of the Board for the Sino-American Cancer Foundation (the "Foundation") and served as the President for the University Taipei Medical University (the "University"), from August 1, 2011 through July 31, 2016 and currently serves as an honorary Chairman of the Board for the University.

The Company subleases certain of its headquarters facilities to the Foundation. As consideration for this sublease, the Company recognized $7,000 and $0 in the three months ended and $7,000 and $11,000 in the six months ended June 30, 2017 and 2016, respectively.

The Company, from time to time, performs genetic sequencing services for the University. The Company recognized $24,000 and $160,000 as consideration for such services in the three months ended and $36,000 and $160,000 in the six months ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and 2016, $0 and $0 was due from the Foundation and $47,000 and $160,000 was due from the University, respectively.

As more fully described in Note 14, in April 2017, the Company, through an affiliated company formed for the purpose of the relationship, entered into a cooperation agreement (the "JV Agreement") with Xilong Scientific Co., Ltd. ("Xilong Scientific") and Fuzhou Jinqiang Investment Partnership (LP) ("FJIP") to form a joint venture under the laws of the People's Republic of China ("PRC") called Fujian Fujun Gene Biotech Co., Ltd. ("FF Gene Biotech"). Xilong Scientific is an affiliate of Xi Long USA, Inc., a large stockholder of the Company that, as of June 30, 2017, owned 11% of the outstanding shares of the Company's common stock, and FJIP is owned by key management of FF Gene Biotech, including Dr. Han Lin Gao, the Chief Scientific Officer and a large stockholder of the Company and the owner of approximately 25% of FJIP.

**Note 14. Equity Method Investments**

In April 2017, the Company, through an affiliated company formed for the purpose of the relationship, entered into the JV Agreement with Xilong Scientific and FJIP to form FF Gene Biotech, a joint venture formed under the laws of the PRC to offer genetic testing services to customers in the PRC. Pursuant to the terms of the JV Agreement, the Company has agreed to contribute to FF Gene Biotech genetic sequencing and other equipment with a total cost of up to 60,000,000 renminbi ("RMB") (or approximately $8.9 million U.S. dollars) over a three-year period for a 30% ownership interest in FF Gene Biotech, Xilong Scientific has agreed to contribute to FF Gene Biotech 102,000,000 RMB (or approximately $15.1 million U.S. dollars) over a three-year period for a 51% ownership interest in the FF Gene Biotech, and FJIP has agreed to contribute to FF Gene Biotech 19,000,000 RMB (or approximately $2.8 million U.S. dollars) over a five-year period for a 19% ownership interest in FF Gene Biotech. The Company's maximum exposure to fund losses of FF Gene Biotech as a result of its minority ownership of this entity is equal to its contribution obligation under the JV Agreement as described above. As of June 30, 2017, the Company had contributed no amounts pursuant to its contribution commitment under the JV Agreement.

The Company concluded FF Gene Biotech is a variable interest entity as the Company lacks sufficient equity ownership in FF Gene Biotech. The Company concluded that it alone does not have the power to direct the most significant activities of FF Gene Biotech and therefore is not the primary beneficiary of the entity. Judgment regarding the level of influence over FF Gene Biotech includes consideration of key factors such as the Company's ownership interest, representation on the board of directors or other management body and participation in policy-making decisions.

The Company accounts for its 30% interest in FF Gene Biotech using the equity method of accounting. The Company recorded its proportionate share of the losses of FF Gene Biotech in the three and six months ended June 30, 2017 in the accompanying condensed consolidated statements of operations, and recorded its proportionate share in the accumulated losses of FF Gene Biotech as a liability in the accompanying condensed consolidated balance sheet as of June 30, 2017.

The Company entered into a license agreement with FF Gene Biotech, pursuant to which it granted FF Gene Biotech a license to use certain of the Company's clinical molecular diagnostic gene detection technology and related software and proprietary reference library of genetic information, along with any improvements on this technology that they may develop during the term of the license agreement. Under the license agreement, FF Gene Biotech will pay to the Company, on a quarterly basis, certain royalties based on

the revenues of FF Gene Biotech. The Company received an insignificant amount of royalties under the license agreement during the period ended June 30, 2017.

Equity method investments consisted of the following:

| | June 30, 2017 | |
|---|---|---|
| | Carrying Value | Ownership Percentage |
| | (in thousands) | |
| FF Gene Biotech | $ (105) | 30% |
| Total equity method investments | $ (105) | 30% |

**Summary Financial Information**

Summary financial information for FF Gene Biotech is as follows:

| *Balance Sheet Data:* | June 30, 2017 | December 31 2016 |
|---|---|---|
| | (in thousands) | |
| Current Assets | $ 4,912 | $ 3,640 |
| Non-Current Assets | 1,758 | 1,783 |
| Current Liabilities | 2,303 | 119 |
| Non-Current Liabilities | — | — |
| Shareholders' Equity | 4,367 | 5,304 |

| *Statement of Operations Data:* | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2016 |
|---|---|---|
| | (in thousands) | |
| Net Sales | $ 25 | $ — |
| Gross Profit | 6 | — |
| Net Earnings (loss) | (939) | (62) |
| Share of loss from investments accounted for using the equity method* | (105) | — |

* The Company's share of loss is based on prorated net loss beginning April 25, 2017, the date on which the Company entered into the JV Agreement.

**Note 15. Subsequent Events**

Subsequent to June 30, 2017, the Company contributed to FF Gene Biotech an aggregate of $2.5 million in equipment pursuant to its contribution obligations under the JV Agreement.

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

*On September 30, 2016, Fulgent Therapeutics LLC became a wholly owned subsidiary of Fulgent Genetics, Inc. in a transaction we refer to as the Reorganization. As used in the following discussion and analysis and elsewhere in this report, unless the context otherwise requires, (i) the term "Fulgent LLC" refers to Fulgent Therapeutics LLC, (ii) the term "Fulgent Inc." refers to Fulgent Genetics, Inc. and (iii) the terms "Fulgent," the "company," "we," "us" and "our" refer, for periods prior to completion of the Reorganization, to Fulgent LLC and, for periods after completion of the Reorganization, to Fulgent Inc. and its consolidated subsidiaries after giving effect to the Reorganization. Following the Reorganization, Fulgent Inc. is a holding company with no material assets other than 100% of the equity interests in its subsidiaries, including Fulgent LLC. Fulgent LLC is considered Fulgent Inc.'s predecessor for accounting purposes and Fulgent LLC's financial statements for all periods prior to completion of the Reorganization constitute Fulgent Inc.'s historical financial statements.*

*The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial statements and related notes included in this report. Additionally, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K promulgated by the Securities and Exchange Commission, or SEC, in preparing this discussion and analysis, we presume that readers have access to and have read the discussion and analysis of our financial condition and results of operations included in our annual report on Form 10-K for our fiscal year ended December 31, 2016 filed with the SEC on March 17, 2017, or the 2016 Annual Report.*

### *Forward-Looking Statements*

*The following discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements other than historical facts and relate to future events or circumstances or our future performance, and they are based upon our current assumptions, expectations and beliefs concerning future developments and their potential effect on our business. The forward-looking statements in this discussion and analysis include statements about, among other things, our future financial and operating performance, our future cash flows and liquidity, and our growth strategies, as well as anticipated trends in our business and industry. These forward-looking statements are subject to a number of risks and uncertainties, including, among others, those described under "Item 1A. Risk Factors" in Part II of this report. In light of these risks and uncertainties, the forward-looking events and circumstances described in this discussion and analysis may not occur, and actual results could differ materially and adversely from those described in or implied by our forward-looking statements. As a result, you should not rely upon forward-looking statements as predictions of future events and you should read this discussion and analysis with the understanding that our actual future results, levels of activity, performance and achievements or other future events may be materially different than what we currently expect. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.*

### Overview

We are a profitable and growing technology company with an initial focus on offering comprehensive genetic testing to provide physicians with clinically actionable diagnostic information they can use to improve the quality of patient care. We have developed a proprietary technology platform that integrates sophisticated data comparison and suppression algorithms, adaptive learning software, advanced genetic diagnostics tools and integrated laboratory processes. This platform allows us to offer a broad and flexible test menu and continually expand and improve our proprietary genetic reference library, while maintaining accessible pricing, high accuracy and competitive turnaround times. We believe our test menu offers more genes for testing than our competitors in today's market, which enables us to provide expansive options for test customization and clinically actionable results. Our current test menu includes approximately 18,000 single-gene tests and more than 850 pre-established, multi-gene, disease-specific panels that collectively test for approximately 7,700 genetic conditions, including various cancers, cardiovascular diseases, neurological disorders and pediatric conditions.

Our existing customer base consists primarily of hospitals and medical institutions, which are frequent and high-volume users of genetic tests and which typically pay us directly for our tests. We have generated high demand for our tests with less marketing efforts to date than many of our competitors, which we believe demonstrates the advantages of our offering compared to other available genetic testing alternatives, and we believe that our focus on investing in and growing our sales and marketing function in recent periods and in the near term will help stimulate further demand. We offer tests at competitive prices, averaging approximately $1,199 per billable test delivered in the first half of 2017, and at a lower cost to us than many of our competitors, totaling approximately $451 per billable test delivered in the first half of 2017. Our volume has grown rapidly since our commercial launch in 2013, with over 28,618 billable tests delivered through June 30, 2017. We delivered 3,871 and 8,293 billable tests in the second quarter and the first half of 2017, respectively, compared to 2,781 and 5,209 billable tests delivered in the second quarter and the first half of 2016, respectively. We recorded revenue and loss from continuing operations of $4.6 million and $25,000, respectively, in the three months ended June 30, 2017, compared to revenue and loss from continuing operations of $4.0 million and $4.5 million, respectively, in the

three months ended June 30, 2016. We recorded revenue and income from continuing operations of $9.9 million and $207,000, respectively, in the six months ended June 30, 2017, compared to revenue and loss from continuing operations of $7.4 million and $5.1 million, respectively, in the six months ended June 30, 2016. Moreover, based on our results of operations for the first half of 2017, we have achieved profitability at an early stage of our operations.

## Recent Developments

### FF Gene Biotech Joint Venture

On April 25, 2017, we, through an affiliated company formed for the purpose of the relationship, entered into a cooperation agreement with Xilong Scientific Co., Ltd., or Xilong Scientific, and Fuzhou Jinqiang Investment Partnership (LP), or FJIP, to form a joint venture under the laws of the People's Republic of China, or PRC, called Fujian Fujun Gene Biotech Co., Ltd. or FF Gene Biotech. FF Gene Biotech offers genetic testing services to customers in the PRC. Pursuant to the terms of the cooperation agreement, we have agreed to contribute to FF Gene Biotech genetic sequencing and other equipment with a total cost of up to 60,000,000 renminbi, or RMB (or approximately $8.9 million U.S. dollars), over a three-year period for a 30% ownership interest in FF Gene Biotech, Xilong Scientific has agreed to contribute to FF Gene Biotech 102,000,000 RMB (or approximately $15.1 million U.S. dollars) over a three-year period for a 51% ownership interest in the FF Gene Biotech, and FJIP has agreed to contribute to FF Gene Biotech 19,000,000 RMB (or approximately $2.8 million U.S. dollars) over a five-year period for a 19% ownership interest in FF Gene Biotech. In the third quarter of 2017 to date, we have contributed to FF Gene Biotech an aggregate of $2.5 million in equipment pursuant to our contribution obligations under the cooperation agreement. Xilong Scientific, one of the owners of FF Gene Biotech, is an affiliate of Xi Long USA, Inc., or Xi Long, a large stockholder of our company, and FJIP, the third owner of FF Gene Biotech, is owned by key management of FF Gene Biotech, including Dr. Han Lin Gao, our Chief Scientific Officer and a large stockholder of our company, and the owner of approximately 25% of FJIP. The Board of Directors of FF Gene Biotech is composed of three directors, one of which has been appointed by us and two of which have been appointed by Xilong Scientific, and acts by majority vote on all matters except for certain exceptional matters that require unanimous consent.

Additionally, on April 25, 2017, we entered into a license agreement with FF Gene Biotech, pursuant to which we have granted to FF Gene Biotech a license to use certain of our clinical molecular diagnostic gene detection technology and related software and our proprietary reference library of genetic information, along with any improvements on this technology that we may develop during the term of the license agreement. Under the license agreement, FF Gene Biotech will pay to us, on a quarterly basis, certain royalties based on the revenues of FF Gene Biotech, and we have agreed to provide certain technical services to FF Gene Biotech in connection with the license granted under the agreement. We recorded minimal royalties, on the accompanying condensed consolidated statements of operations, under the license agreement in the first half of 2017, but we expect to begin generating more royalties in the near term. The license agreement expires on December 31, 2018 and may be extended by mutual agreement of the parties.

## Factors Affecting Our Performance

### Market and Industry Trends

Genetic testing has experienced significant growth in recent years. If this trend continues, we believe genetic testing will become a more accepted part of standard medical care, and the knowledge of a person's unique genetic makeup will begin to play a more important role in the practice of medicine. The advent of next generation sequencing, or NGS, technology, a relatively new genetic testing technique that enables millions of DNA fragments to be sequenced in parallel, has dramatically lowered the cost and improved the quality of genetic testing, contributing to increased adoption generally and increased volumes for our tests. According to GrandView Research, the size of the global NGS genetic testing market, which includes pre-sequencing, sequencing and data analysis, is estimated to have been approximately $4.0 billion in 2016, including approximately $1.4 billion in the United States, and is expected to reach approximately $10.5 billion by 2022, including approximately $3.6 billion in the United States.

The increased adoption of genetic testing in recent years has caused increased competition in our industry. This increased competition, as well as cost-saving initiatives on the part of government entities and other third-party payors, has resulted in downward pressure on the price for genetic analysis and interpretation generally, which could intensify in future periods if adoption of genetic testing becomes more widespread. We have reduced the prices for certain of our tests in recent periods to maintain our competitive position, and increased downward pricing pressure could harm our revenue and margins and our ability sustain or grow profitability.

While adoption of genetic testing has increased in recent years, we believe widespread utilization has been limited in large part because of certain barriers to adoption that exist in today's market. Among these barriers are that genetic testing can be prohibitively expensive, only a limited number of genetic tests are currently reimbursable, certain genetic conditions cannot be diagnosed due to the

limited scope of some genetic analysis, genetic testing can be an inefficient process, and the interpretation of genetic results can be cumbersome and time-consuming. We believe a significant market exists for a genetic testing option that provides broad genetic coverage and the flexibility to customize tests for individual patient needs, while maintaining accuracy and affordability. We believe the proprietary technology platform we have developed enables us to overcome many of these challenges facing our industry today.

**Number and Mix of Billable Tests Delivered**

Our performance is closely correlated with the number of tests for which we bill our customers, which we refer to as billable tests. The number of billable tests we deliver in any period depends on a number of factors, including the other factors affecting our performance described in this discussion and analysis. We believe the number of billable tests that we deliver is an important indicator of the performance of our business. We have experienced compound quarterly growth of 9% in the number of billable tests delivered in our last eight completed fiscal quarters.

In addition, we offer our tests at different price points depending on the nature and level of complexity and customization of the test and the specific rates we have negotiated for the tests, which can vary from customer to customer. As a result, the mix of billable tests delivered in any period, and the customers that order these tests, impacts our financial results for the period.

**Mix of Customers**

Through June 30, 2017, we have sold our tests to over 650 total customers. We consider each single billing and paying unit to be an individual customer, even though the unit may represent multiple physicians and healthcare providers ordering tests. Our existing customer base consists primarily of hospitals and medical institutions, which are frequent and high-volume users of genetic tests. Additionally, collection of billings from these institutional customers is generally more attainable than from other types of customers in today's reimbursement environment, as approximately 86% of our test billings that were generated and due in 2016 were paid during that period. In certain periods, a small number of customers have accounted for a significant portion of our revenue. For instance, in the three and six months ended June 30, 2017, aggregating customers that are under common control or are affiliates, two customers contributed 13% and 12% of our revenue, and three customers contributed 12%, 11% and 11% of our revenue in the respective periods. Generally, we do not have long-term purchase agreements with any of our customers and, as result, any or all of them could decide at any time to increase, decrease or delay their orders from us. For example, certain of our international customers, including two of our most significant customers in the first quarter of 2017, ordered significantly fewer tests and generated significantly less revenue to us in the second quarter of 2017. We believe these fluctuations may be attributable in part to the nature of our business, in which key customers can experience significant volatility in their genetic testing demand from period to period in the ordinary course of their operations, and we are focused on more deeply penetrating our relationships with all of our existing customers, including our key customers, to increase the overall volume of tests they order from us.

In addition, we are seeking to grow our customer base by continuing to acquire new hospital and medical institution customers and expand into additional customer groups, such as individual physicians and other practitioners, as well as research institutions. To this end, we have made efforts to diversify our customer market, including developing relationships with a national clinical laboratory and a regional medical network in an effort to fulfill some of the genetic testing needs of the U.S. military and certain other U.S. government agencies. We have also pursued relationships with payors, including Medicare, some state Medicaid programs and commercial third-party payors, to obtain coverage and reimbursement for our tests in order to make them accessible to more individual physicians. Subject to limited exceptions for minimal amounts, none of these relationships obligate any party to order our tests at any agreed volume or frequency, or at all. However, we believe our ability to establish these types of relationships and relationships with other new customers, as well as our ability to achieve increased sales to existing customers, are significant indicators of the growth potential of our business.

We believe the key to further penetrating our existing customer base and expanding into new customer markets is to continue to focus on delivering a broad and flexible test menu while maintaining affordable prices. In order to offer our customers affordable price points, we continue to improve our technology platform to develop tests that we can perform at a low internal cost. In addition, we believe an increased focus on sales and marketing will facilitate customer growth. We have been heavily investing in our sales and marketing function in recent periods and we plan to continue to do so in the near-term, with the goal of continuing to increase the size of our sales and marketing team over the next 12 months.

**Ability to Maintain Our Broad and Flexible Test Menu**

We believe the large number of genes that we incorporate into our test menu provides a meaningful competitive advantage. We believe the breadth of genes in our portfolio allows us to provide more comprehensive genetic information and improves our variant detection rate, which can increase the clinical actionability of the data we produce. The breadth of genes in our portfolio also allows us

to provide a flexible and customizable test menu for our customers. We believe that our ability to continue to offer more genes than our competitors could be a key contributor to the growth of our business.

**Ability to Maintain Low Costs**

We have developed various proprietary technologies that improve our laboratory efficiency and reduce the costs we incur to perform our tests, including our proprietary gene probes, data algorithms, adaptive learning software and genetic reference library. This technology platform enables us to perform each test and deliver its results at a lower cost to us than many of our competitors, totaling approximately $451 per billable test delivered in the first half of 2017. This low cost per billable test allows us to maintain affordable and competitive pricing for our customers, averaging approximately $1,199 per billable test delivered in the first half of 2017, which we believe encourages repeat ordering from existing customers and attracts new customers. We believe this low internal cost is a key contributor to our ability to grow our business and drive increased profitability.

**Expansion into New Markets**

We believe expanding our test menu and our geographic presence will appeal to a broader base of potential customers and increase our revenue potential.

We intend to continue to expand our test menu to more comprehensively cover certain key markets and to address new markets. For example, we intend to expand our offering of oncology, cardiology, pediatrics and prenatal test panels, which represent large genetic testing markets in which we believe our comprehensive and flexible tests will be competitive. In addition, we intend to continue to develop new types of tests to include more options in our offering. For example, in the third quarter of 2016, we launched a chromosomal test called CNV+ that is designed to use NGS technology to detect copy number variants with similar or improved results as compared to microarray-based genomic tests. In addition, we launched carrier screening tests in August 2017, and we intend to expand upon these tests in future periods with larger panels that cover more genes.

We also believe there is a large potential for growth of genetic testing in many international markets due to the presence of high unmet diagnostic and predictive testing needs, rapidly rising healthcare expenditures and patient awareness of NGS technologies. We plan to continue to pursue direct sales to customers in a variety of geographic markets, including Canada, where we have historically focused much of our international efforts, the PRC, where we started selling tests directly to customers in the third quarter of 2016, and others. We also intend to engage distributors or establish other types of arrangements, such as joint ventures or other relationships, to expand our presence and test volume in certain of these markets. To this end, in April 2017, our joint venture FF Gene Biotech was established to offer genetic testing to customers in the PRC. Although this joint venture is subject to a number of risks, including market, regulatory and other factors that could cause it to fail to produce to us the revenue or other benefits we anticipate, or a potential decline in our direct sales to customers in Asia if any of these customers choose to obtain genetic testing services from FF Gene Biotech instead of from us, we believe the joint venture could result in expanded long-term opportunities to address the genetic testing market in Asia.

**Success Obtaining Reimbursement**

In today's market, third-party payors generally restrict the reimbursement of genetic testing to a limited subset of genetic tests and only for those patients who meet specific criteria. This lack of widespread favorable reimbursement policies has presented a challenge for genetic testing companies in building sustainable business models. As part of our growth strategy, we intend to pursue coverage and reimbursement from third-party payors at a level adequate for us to achieve profitability with this payor group. To this end, we have contracted with one regional physician services organization and one national health insurance company to become an in-network provider and we have enrolled as a supplier with Medicare and 15 state Medicaid programs, which means that we have agreed with these payors to provide certain of our tests at negotiated rates. Although this does not guarantee that we will receive reimbursement for our tests from these or any other payors at adequate levels, we believe our low cost per billable test will enhance our ability to compete effectively in the third-party payor market and our flexibility in establishing relationships with additional third-party payors in the future. Our level of success in obtaining and maintaining adequate coverage and reimbursement from third-party payors for our testing services will, we believe, be a key factor in the rate and level of growth of our business over the long term.

**Equity-Based Compensation**

In January 2016, our predecessor Fulgent LLC granted an award of fully vested equity to one of our employees. The equity-based compensation expense associated with this award was recorded in full in the period in which the award was granted. As a result, there were substantially increased operating expenses in the first half of 2016. We do not intend to grant additional awards of fully vested equity and, as a result, we do not expect that we will experience similar levels of equity-based compensation expense in future periods. Generally, we record equity-based compensation over the requisite service period from the grant date of the applicable award.

**Xi Long Financing**

In May 2016, our predecessor Fulgent LLC completed a transaction with Xi Long and certain of Fulgent LLC's other equity holders, or members. In this transaction, (i) Xi Long acquired Class D-1 preferred and Class D common units of Fulgent LLC from certain existing members of Fulgent LLC for an aggregate purchase price of $12.0 million, which units were required to be redeemed and exchanged by Fulgent LLC, on a one-for-one basis, for Class D-2 preferred units of Fulgent LLC, and (ii) Fulgent LLC sold additional Class D-2 preferred units to Xi Long for gross proceeds of $15.2 million. Fulgent LLC incurred issuance costs of $185,000 for the transaction, resulting in net proceeds to Fulgent LLC of $15.0 million. As a result of the transaction, Xi Long had acquired Class D-2 preferred units of Fulgent LLC for an aggregate purchase price of $27.2 million, even though, at issuance, the fair value of the acquired Class D-2 preferred units, as evidenced by Fulgent LLC's then most recent third-party valuation, was $32.6 million. The $5.5 million difference between the fair value of, and the aggregate consideration paid by Xi Long for, the Class D-2 preferred units of Fulgent LLC that were issued in the transaction was not attributable to any stated rights or privileges. Rather, Fulgent LLC, Xi Long and the members of Fulgent LLC who were party to the transaction determined to complete the transaction consistent with their discussions, notwithstanding that the fair value of the Class D-2 preferred units as evidenced by Fulgent LLC's third-party valuation had increased from the time these discussions were initiated to the time the transaction was completed. The $5.5 million difference was determined to be a cost of completing the transaction with Xi Long and was recorded as an expense in the accompanying condensed consolidated statement of operations for the three months ended June 30, 2016.

Upon completion of the Reorganization, all outstanding units of Fulgent LLC, including the Class D-2 preferred units issued to Xi Long in this transaction, were cancelled in exchange for shares of our common stock. See "Reorganization" below for additional information.

**Business Risks and Uncertainties**

Our business and prospects are exposed to numerous risks and uncertainties. For more information, see "Item 1A. Risk Factors" in Part II of this report.

**Discontinued Operations**

Prior to April 4, 2016, Fulgent LLC conducted the following two lines of business: the genetic testing business we are currently pursuing, which Fulgent LLC conducted directly; and our former pharmaceutical business, or the Pharma Business, which was conducted through Fulgent LLC's former subsidiary, Fulgent Pharma LLC, or Fulgent Pharma. Prior to April 4, 2016, all of Fulgent LLC's equity interests were separated into two series of units based on these two lines of business, with the Class D units having economic rights based on the genetic testing business we are currently pursuing and the Class P units having economic rights based on the Pharma Business. On April 4, 2016, Fulgent LLC separated the Pharma Business from the genetic testing business we are currently pursuing in a transaction we refer to as the Pharma Split-Off. To effect the Pharma Split-Off, Fulgent LLC redeemed each member's Class P units, distributed to each such member substantially identical units of Fulgent Pharma and caused Fulgent Pharma to assume all then-outstanding options to acquire Class P units.

The operating results of the Pharma Business have been reported as discontinued operations for all applicable periods presented in the consolidated financial statements included in this report. In the three and six months ended June 30, 2016, we recorded loss from discontinued operations of $18,000 and income of $41,000, respectively.

**Reorganization**

On September 30, 2016, our predecessor Fulgent LLC became our wholly owned subsidiary upon completion of the Reorganization. For purposes of this discussion and analysis, Fulgent LLC's equity interests outstanding prior to the Reorganization are referred to as "units," and Fulgent LLC's equity holders prior to the Reorganization are referred to as "members." Prior to the Reorganization, Fulgent Inc. did not conduct any activities other than activities incidental to its formation and preparation for its initial public offering.

Upon completion of the Reorganization, among other things: each then-outstanding 7.6 units of Fulgent LLC (which included voting and non-voting common units and two classes (Class D-1 and Class D-2) of preferred units convertible into Class D common units) were cancelled in exchange for one share of our common stock; all outstanding options to acquire units of Fulgent LLC were cancelled in exchange for equivalent options to acquire shares of our common stock, and all such options became immediately exercisable to the extent vested; and all outstanding restricted share units relating to units of Fulgent LLC were cancelled in exchange for equivalent restricted stock units relating to shares of our common stock. After completion of the Reorganization, we continue to exist as a holding company, with no material assets other than 100% of the equity interests in Fulgent LLC and our other subsidiaries.

We consolidate the financial results of Fulgent LLC, and the historical financial statements of Fulgent LLC are our historical financial statements.

## Financial Overview

### Revenue

We generate revenue from sales of our genetic tests. We recognize revenue upon delivery of a report to the ordering physician based on the established billing rate, less contractual and other adjustments, to arrive at the amount that we expect to collect. We generally bill directly to a hospital, medical institution or research institution customer or to a patient, a third-party payor or a combination of a patient and a third-party payor. We also generate revenue from certain research services related to gene sequencing as a service. Research revenue has been minimal in the past, but we expect revenue from these activities could grow in the future. In addition, as a result of the establishment of FF Gene Biotech and our related license agreement with FF Gene Biotech in April 2017, we began recording revenue upon our receipt of royalties from FF Gene Biotech under the license agreement, the amount of which is based on the revenue levels of FF Gene Biotech and has been minimal through June 30, 2017.

### Cost of Revenue

Cost of revenue reflects the aggregate costs incurred in delivering test results and gene sequencing for clinical and research services and consists of: personnel costs, including salaries, employee benefit costs, bonuses and equity-based compensation expenses; costs of laboratory supplies; depreciation of laboratory equipment; amortization of leasehold improvements and allocated overhead, including rent and utilities. Costs associated with performing tests are recorded as tests are processed. We expect cost of revenue to generally increase as we increase the number of tests we deliver.

### Operating Expenses

Our operating expenses are classified into the following three categories: research and development; selling and marketing; and general and administrative. For each category, the largest component is personnel costs, which include salaries, employee benefit costs, bonuses and equity-based compensation expenses.

#### *Research and Development Expenses*

Research and development expenses represent costs incurred to develop our technology and future tests. These costs consist of personnel costs, laboratory supplies, consulting costs and allocated overhead, including rent and utilities. We expense all research and development costs in the periods in which they are incurred. We expect our research and development expenses will increase in absolute dollars in future periods, as we expect to continue to invest in research and development.

#### *Selling and Marketing Expenses*

Selling and marketing expenses consist of personnel costs, customer service expenses, direct marketing expenses, educational and promotional expenses, market research and analysis and allocated overhead, including rent and utilities. We expense all selling and marketing costs as incurred. We expect our selling and marketing costs will continue to increase in absolute dollars, primarily driven by our efforts to expand our sales and marketing team, increase our presence within and outside the United States and expand our brand awareness and customer base through targeted marketing initiatives.

#### *General and Administrative Expenses*

General and administrative expenses include executive, finance and accounting, legal and human resources functions. These expenses consist of personnel costs, audit and legal expenses, consulting costs and allocated overhead, including rent and utilities. We expense all general and administrative expenses as incurred. We expect our general and administrative expenses will continue to increase in absolute dollars as we scale our operations. We also expect to continue to incur increased general and administrative expenses as a result of completing our initial public offering in October 2016 and operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and the NASDAQ Stock Market, additional insurance expenses, investor relations activities and other administrative and professional services.

### Provision for (Benefit from) Income Taxes

Provision for income taxes consists of U.S. federal and state income taxes. To date, we have not had significant U.S. federal and state income taxes because of the status of our predecessor Fulgent LLC as a pass-through entity for tax purposes. As a result, for all periods prior to the Reorganization, all taxable income or loss and tax credits of Fulgent LLC generally were reflected in the personal

income tax returns of the Fulgent LLC's members and no provision for federal or state income taxes was provided in our consolidated financial statements. We became a taxable entity upon completion of the Reorganization on September 30, 2016.

We record a valuation allowance when it is more likely than not that some portion or all of a deferred tax asset will not be realized. In making such a determination, we consider all the available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, and ongoing prudent and feasible tax planning strategies, to assess the amount of the valuation allowance. When we determine to establish or reduce the valuation allowance against the deferred tax assets, our provision for income taxes will increase or decrease, respectively, in the period in which the determination is made.

## Results of Operations

The following table summarizes the results of our continuing operations for each period indicated:

| | Three Months Ended June 30, | | $ | % | Six Months Ended June 30, | | $ | % |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change | Change | 2017 | 2016 | Change | Change |
| Revenue | $4,640 | $ 3,971 | $ 669 | 17% | $9,946 | $ 7,411 | $2,535 | 34% |
| Cost of revenue | 1,879 | 1,411 | 468 | 33% | 3,738 | 2,715 | 1,023 | 38% |
| Gross profit | 2,761 | 2,560 | 201 | 8% | 6,208 | 4,696 | 1,512 | 32% |
| Operating expenses: | | | | | | | | |
| Research and development | 920 | 656 | 264 | 40% | 1,771 | 1,217 | 554 | 46% |
| Selling and marketing | 851 | 477 | 374 | 78% | 1,742 | 778 | 964 | 124% |
| General and administrative | 1,140 | 457 | 683 | 149% | 2,626 | 2,346 | 280 | 12% |
| Total operating expenses | 2,911 | 1,590 | 1,321 | 83% | 6,139 | 4,341 | 1,798 | 41% |
| Operating income (loss) | (150) | 970 | (1,120) | -115% | 69 | 355 | (286) | -81% |
| Interest and other income (expense) | 120 | (5,462) | 5,582 | -102% | 239 | (5,449) | 5,688 | -104% |
| Income (loss) before income taxes and equity in net loss of affiliate | (30) | (4,492) | 4,462 | -99% | 308 | (5,094) | 5,402 | -106% |
| Provision for (benefit from) income taxes | (110) | — | (110) | * | (4) | — | (4) | * |
| Income (loss) before equity in net loss of affiliate | 80 | (4,492) | 4,572 | -102% | 312 | (5,094) | 5,406 | -106% |
| Equity in net loss of affiliate | (105) | — | (105) | * | (105) | — | (105) | * |
| Income (loss) from continuing operations | $ (25) | $(4,492) | $ 4,467 | -99% | $ 207 | $(5,094) | $5,301 | -104% |
| **Other Operating Data:** | | | | | | | | |
| Billable tests | 3,871 | 2,781 | | 39% | 8,293 | 5,209 | | 59% |

* Percentage not meaningful

### Revenue

Revenue increased $669,000, or 17%, from $4.0 million in the three months ended June 30, 2016 to $4.6 million in the three months ended June 30, 2017, and increased $2.5 million, or 34%, from $7.4 million in the six months ended June 30, 2016 to $9.9 million in the six months ended June 30, 2017. The increase in revenue across all periods was primarily due to an increased number of billable tests delivered, which increased from 2,781 in the three months ended June 30, 2016 to 3,871 in the three months ended June 30, 2017 and from 5,209 in the six months ended June 30, 2016 to 8,293 in the six months ended June 30, 2017. The increase in the number of billable tests delivered between periods was primarily attributable to the expansion of our test menu, including single-gene tests and multi-gene panels, an increase in sales to certain of our existing customers, and our commencement of sales to certain new customers, including particularly sales to certain significant customers located in the PRC, combined with growth in the genetic testing market and increased physician awareness and acceptance of genetic tests generally.

The average price of the billable tests we delivered decreased from $1,428 in the three months ended June 30, 2016 to $1,198 in the three months ended June 30, 2017 and from $1,423 in the six months ended June 30, 2016 to $1,199 in the six months ended

June 30, 2017. We believe this decrease was due to (i) the mix of tests we delivered in these periods, including fewer higher price-point tests in the 2017 period, (ii) the mix of customers ordering tests in these periods, which may order tests at different rates depending on the arrangements we have negotiated with them, and (iii) our reduction of prices for certain of our tests due to general price degradation for genetic tests and other competitive factors.

Revenue from non-U.S. customers increased $616,000, or 35%, from $1.7 million in the three months ended June 30, 2016 to $2.4 million in the three months ended June 30, 2017, and increased $2.3 million, or 70%, from $3.3 million in the six months ended June 30, 2016 to $5.6 million in the six months ended June 30, 2017. The increase in revenue from non-U.S. customers was primarily attributable to our commencement of sales to customers in the PRC in the third quarter of 2016, which contributed $522,000 in revenue in the three months ended June 30, 2017 and $2.0 million in revenue in the six months ended June 30, 2017, and to an increase of $277,000 and $493,000 in revenue from customers in Canada in the three and six months ended June 30, 2017, respectively, in each case compared to the comparable 2016 period. Sales to non-U.S. customers expose us to fluctuations in our results associated with changes in foreign currency exchange rates, depending upon the value of the U.S. dollar compared to the foreign currencies in which we record revenue. During all periods covered by this report, we consider the estimated effect on our revenue of foreign currency exchange rate fluctuations to be immaterial. However, the impact of foreign currency exchange rate fluctuations may increase in the future as we continue to expand internationally. For instance, all of our revenue-producing transactions have historically been denominated in U.S. dollars; however, we started billing certain of our Canadian hospital customers in their local currency during the second quarter of 2017. Additionally, we began recording revenue under our license agreement with FF Gene Biotech in the second quarter of 2017 as this joint venture began to generate revenue based on its sales of genetic tests to customers in the PRC, and we expect such royalty revenue to increase in the future. The royalty revenue we receive from FF Gene Biotech is paid to us in Chinese RMB, which we then convert to U.S. dollars. These or other changes in the currencies in which we receive payments and record revenue could result in an increased impact in future periods of foreign currency translations and exchange rate fluctuations.

**Cost of Revenue**

Cost of revenue increased $468,000, or 33%, from $1.4 million in the three months ended June 30, 2016 to $1.9 million in the three months ended June 30, 2017. The increase was primarily due to increases of $153,000 in personnel costs related to increased headcount, $127,000 in depreciation costs due to an increasing amount of medical lab equipment purchased to expand our capacity and throughput, $94,000 in reagents and supplies expenses related to increased billable tests delivered, and $62,000 in equity-based compensation expense related to our mark-to-market valuation of non-employee equity-based awards and our grant of additional equity-based awards in the 2017 period.

Cost of revenue increased $1.0 million, or 38%, from $2.7 million in the six months ended June 30, 2016 to $3.7 million in the six months ended June 30, 2017. The increase was primarily due to increases of $302,000 in personnel costs related to increased headcount, $301,000 in depreciation costs due an increasing amount of medical lab equipment purchased to expand our capacity and throughput, $208,000 in equity-based compensation expense related to our mark-to-market valuation of non-employee equity-based awards and our grant of additional equity-based awards in the 2017 period, and $153,000 in reagents and supplies expenses related to increased billable tests delivered.

Our gross profit increased $201,000, from $2.6 million in the three months ended June 30, 2016 to $2.8 million in the three months ended June 30, 2017, and increased $1.5 million, from $4.7 million in the six months ended June 30, 2016 to $6.2 million in the six months ended June 30, 2017. The increase in gross profit across all periods was primarily due to increased revenue. Our gross profit as a percent of revenue, or gross margin, decreased from 64.5% to 59.5% between the three months ended June 30, 2016 and 2017 and from 63.4% to 62.4% between the six months ended June 30, 2016 and 2017. The decrease in gross margin across all periods was primarily due to an increase in personnel-related costs between periods related to increased headcount.

**Research and Development**

Research and development expenses increased $264,000, or 40%, from $656,000 in the three months ended June 30, 2016 to $920,000 in the three months ended June 30, 2017. The increase was primarily due to an increase of $197,000 in equity-based compensation expense related to our mark-to-market valuation of non-employee equity-based awards and our grant of additional equity-based awards in the 2017 period.

Research and development expenses increased $554,000, or 46%, from $1.2 million in the six months ended June 30, 2016 to $1.8 million in the six months ended June 30, 2017. The increase was primarily due to an increase of $408,000 in equity-based compensation expense related to our mark-to-market valuation of non-employee equity-based awards and our grant of additional equity-based awards in the 2017 period.

**Selling and Marketing**

Selling and marketing expenses increased $374,000, or 78%, from $477,000 in the three months ended June 30, 2016 to $851,000 in the three months ended June 30, 2017. The increase was primarily due to increases of $168,000 in personnel costs related to increased headcount, $101,000 in consulting expenses related to international business development, and $70,000 in marketing costs related to our targeted marketing initiatives, including increased attendance at various exhibitions and conferences.

Selling and marketing expenses increased $964,000, or 124%, from $778,000 in the six months ended June 30, 2016 to $1.7 million in the six months ended June 30, 2017. The increase was primarily due to increases of $408,000 in personnel costs related to increased headcount, $171,000 in marketing costs related to our targeted marketing initiatives, including increased attendance at various exhibitions and conferences, $139,000 in consulting expenses related to international business development, and $87,000 in travel expenses related to increased headcount.

**General and Administrative**

General and administrative expenses increased $683,000, or 149%, from $457,000 in the three months ended June 30, 2016 to $1.1 million in the three months ended June 30, 2017. The increase was primarily due to increases of $149,000 in other taxes primarily related to payments of local business property tax, $127,000 in professional service fees, including legal fees, $114,000 in equity-based compensation expense related to our mark-to-market valuation of non-employee equity-based awards and our grant of additional equity-based awards in the 2017 period, and $109,000 in personnel costs related to increased headcount.

General and administrative expenses increased $280,000, or 12%, from $2.3 million in the six months ended June 30, 2016 to $2.6 million in the six months ended June 30, 2017. The increase was primarily due to increases of $605,000 in accounting fees related to services performed in connection with being a public company, $281,000 in professional service fees, including legal fees, $274,000 in personnel costs related to increased headcount, $166,000 in insurance expenses related to directors and officers liability insurance policies, and $160,000 in other taxes primarily related to payments of local business property tax, partially offset by a decrease of $1.4 million in equity-based compensation expense related to the grant of a fully vested equity-based award in the 2016 period that did not recur in the 2017 period.

**Interest and Other Income (Expense)**

Interest income was $114,000 and $233,000 in the three months and six months ended June 30, 2017, respectively. This income related to interest received on various investments in marketable securities. Interest income was not significant in the three or six months ended June 30, 2016.

Other income (expense) was not significant in the three or six months ended June 30, 2017. The primary component of other income (expense) in the three and six months ended June 30, 2017 is related to foreign currency valuation gains (losses). Other expense was $5.5 million and $5.4 million in the three and six months ended June 30, 2016, respectively, which primarily related to the difference between the fair value and the effective issuance price of Class D-2 preferred units of the Fulgent LLC issued to Xi Long in May 2016.

**Benefit from Income Taxes**

Benefit from income taxes was $110,000 and $4,000 in the three and six months ended June 30, 2017 compared to $0 in the three and six months ended June 30, 2016. The increase between periods was primarily due to the conversion of the Company from a pass-through entity to a taxable entity for income tax purposes upon completion of the Reorganization on September 30, 2016. The effect of state income taxes, certain expenses or adjustments related to equity-based compensation were the primary factors impacting our effective tax rate for the six months ended June 30, 2017. We expect that our consolidated effective tax rate in future periods will continue to differ significantly from the U.S. federal income tax rate as a result of state income taxes and certain expenses or adjustments related to equity-based compensation.

**Equity in Net Loss of Affiliate**

Equity in net loss of affiliate was $105,000 in the three and six months ended June 30, 2017 and relates to our 30% ownership interest in FF Gene Biotech. We did not have any income or loss from equity method investments in the 2016 periods.

## Liquidity and Capital Resources

### Liquidity and Sources of Cash

We had $11.5 million and $7.9 million in cash and cash equivalents as of June 30, 2017 and December 31, 2016, respectively, and $34.6 million and $38.6 million in marketable securities, consisting of corporate bonds, as of June 30, 2017 and December 31, 2016, respectively.

Since inception, our operations have been financed primarily by our founder, Ming Hsieh, and, in recent periods, by cash from our operations and equity financings. In May 2016, we closed an equity financing with Xi Long for net proceeds to us of approximately $15.0 million, and in October 2016, we closed the initial public offering of our common stock for net proceeds to us of approximately $36.0 million, after deducting underwriting discounts and commissions and offering expenses paid or payable by us.

Our primary uses of cash are to fund our operations as we continue to grow and invest in our business. Cash used to fund operating expenses is impacted by the timing of our payment of expenses, as reflected in the changes in our outstanding accounts payable and accrued expenses. In addition, in the third and fourth quarter of 2016, we used an aggregate of $5.8 million in cash to make tax and other distributions to the members of Fulgent LLC, but we do not expect to make these types of distributions in the future. Further, in April 2017, in connection with the establishment of FF Gene Biotech, we became obligated to contribute to FF Gene Biotech genetic sequencing and other equipment with a total cost of up to 60,000,000 RMB (or approximately $8.9 million U.S. dollars) over a three-year period. In the third quarter of 2017 to date, we have contributed to FF Gene Biotech an aggregate of $2.5 million in equipment pursuant to our contribution obligations under the cooperation agreement. Depending on the performance of FF Gene Biotech, this joint venture may never produce sufficient revenue to us to recover these capital and other investments, or any revenue at all, and could cause our revenue to decrease if any of our direct customers in Asia choose to obtain genetic testing services from FF Gene Biotech instead of from us, any of which could negatively affect our liquidity and cash flow.

We believe that our existing cash, along with cash from our operations and proceeds from our recent equity financings, will be sufficient to meet our anticipated cash requirements for at least the next 12 months. Much of the losses we incurred in certain prior periods, including all periods in 2016, were attributable to a variety of non-cash charges, including equity-based compensation expenses related to grants of fully vested equity-based awards and recognition of previously unrecognized compensation expense in connection with the Reorganization and certain other expenses associated with the accounting for our equity financing with Xi Long in May 2016. Thus, in spite of the losses we recorded during these periods, cash provided by continuing operations has been positive since 2015 and has significantly contributed to our ability to meet our liquidity needs, including paying for capital expenditures. Additionally, if our business continues to grow as we anticipate and we are able to achieve increased efficiencies and economies of scale in line with this growth, we expect that increased revenue will increase our ability to rely on cash from our operations to support our business in future periods, even if our expenses also increase as a result of the growth of our business. As a result, we anticipate that cash from our operations will continue to play a meaningful role in our ability to meet our liquidity requirements and pursue our business plans and strategies in the next 12 months and in the longer term.

However, our expectations regarding the cash that may be provided by our operations and our cash needs in future periods could be wrong, in which case we may require additional financing to support our operations, as we do not presently have any commitments for future capital. For instance, cash provided by our operations has in the past experienced fluctuations from period to period, which we expect may continue in the future. These fluctuations can occur as a result of a variety of factors, including the amount and timing of sales of billable tests, the prices that we charge for our tests due to changes in product mix, customer mix, general price degradation for genetic tests or other factors, the rate and timing of our billing and collections cycles and the timing and amount of our commitments and other payments, among others. Moreover, even if our liquidity expectations are correct, we may still seek to raise additional capital through securities offerings, credit facilities or other debt financings, asset sales or collaborations or licensing arrangements. Additional funding may not be available to us when needed, on acceptable terms or at all. If we raise funds by issuing equity securities, our existing stockholders could experience substantial dilution. Additionally, any preferred equity securities we issue could provide for rights, preferences or privileges senior to those of our common stock and our issuance of any additional equity securities, or the possibility of such an issuance, could cause the market price of our common stock to decline. The terms of any debt securities we issue or borrowings we incur, if available, could impose significant restrictions on our operations, such as limitations on our ability to incur additional debt or issue additional equity or other operating restrictions that could adversely affect our ability to conduct our business, and would result in increased fixed payment obligations. In the event that we seek to sell assets or enter into collaborations or licensing arrangements to raise capital, we may be required to accept unfavorable terms or relinquish or license to a third party our rights to important or valuable technologies or tests we may otherwise seek to develop ourselves. Moreover, we may incur substantial costs in pursuing future capital, including investment banking, legal and accounting fees, printing and distribution expenses and other costs. If we are not able to secure funding if and when needed and on reasonable terms, we may be forced to delay, reduce the scope of or eliminate one or more sales and marketing initiatives, research and development programs or other growth plans or strategies. In addition, we may be forced to work with a partner on one or more aspects of our tests or market development

programs or initiatives, which could lower the economic value of these tests, programs or initiatives to our company. Any such outcome could significantly harm our business, performance and prospects.

## Cash Flows

***Continuing Operations***

The following table summarizes cash flows from continuing operations for each of the periods indicated:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| | (in thousands) | |
| Cash provided by operating activities | $ 2,072 | $ 2,384 |
| Cash provided by (used in) investing activities | $ 2,282 | $ (563) |

*Operating Activities*

Cash provided by operating activities in the six months ended June 30, 2017 was $2.1 million. The difference between net income and cash provided by operating activities for the period was primarily due to the effect of a $989,000 equity-based compensation charge and $817,000 in the depreciation of assets, some of which were acquired in prior periods. Cash provided by operating activities increased between periods primarily due to a $1.1 million increase in accrued liabilities mainly related to payroll liabilities and deferred revenue and a $178,000 decrease in accounts receivable mainly due to timing of collections from customers, offset by the negative effect of a $825,000 increase in other current assets primarily due to an increase in prepaid income taxes, insurance, licenses and subscriptions and a $555,000 decrease in accounts payable mainly due to timing of payments to vendors.

Cash provided by operating activities in the six months ended June 30, 2016 was $2.4 million. The difference between net loss and cash provided by operating activities for the period was primarily due to the effect of a $5.5 million charge related to our equity financing with Xi Long in May 2016, which was recorded as other expense, and a $1.6 million equity-based compensation charge related to the grant of a fully vested equity-based award in January 2016. Cash provided by operating activities increased between periods primarily due to a $568,000 increase in accounts payable, which resulted from increased revenue and purchases, offset by the negative effect of a $649,000 increase in accounts receivable from increased revenue.

*Investing Activities*

Cash used in investing activities in the six months ended June 30, 2017 was $2.3 million, which primarily related to maturities of marketable securities, offset by purchases of fixed assets consisting mainly of computer hardware, leasehold improvements, and medical lab equipment.

Cash used in investing activities in the six months ended June 30, 2016 was $563,000, which primarily related to purchases of fixed assets consisting mainly of computer hardware, software and leasehold improvements.

***Discontinued Operations***

Cash used in operating activities by discontinued operations was $31,000 in the six months ended June 30, 2016. There was no cash provided by or used in investing activities by discontinued operations in the six months ended June 30, 2016.

***Financing Activities***

Cash used by financing activities in the six months ended June 30, 2017 was $778,000, which represents payments of $801,000 for our initial public offering costs, partially offset by $23,000 in cash proceeds from exercises of stock options.

Cash provided by financing activities in the six months ended June 30, 2016 was $14.0 million, which represents net proceeds of $15.0 million received from our equity financing with Xi Long in May 2016, partially offset by $1.1 million of costs related to our initial public offering.

### Contractual Obligations

There were no material changes outside the ordinary course of our business in our contractual obligations and other commitments in the six months ended June 30, 2017, except for the establishment of our contribution obligations to FF Gene Biotech and our contributions pursuant to these obligations, as discussed under “Recent Developments—FF Gene Biotech Joint Venture” above.

### Critical Accounting Policies and Use of Estimates

This discussion and analysis is based on our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make certain estimates, judgments and assumptions, as well as a variety of decisions that affect the reported amounts and related disclosures, including the selection of appropriate accounting principles and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgment based on our understanding and analysis of the relevant circumstances, including historical data and experience available at the date of the condensed consolidated financial statements, as well as various other factors management believes to be reasonable under the circumstances. Actual results could differ from our estimates. We are committed to incorporating accounting principles, assumptions and estimates that promote the representational faithfulness, verifiability, neutrality and transparency of the accounting information included in the financial statements.

There have been no significant changes in the critical accounting policies and estimates as described in the 2016 Annual Report.

### The JOBS Act

We qualify as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, as amended, or JOBS Act. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable to public companies that are not emerging growth companies, including an extended transition period to comply with new or revised accounting standards applicable to public companies. We have chosen to “opt out” of this provision and, as a result, we will comply with new or revised accounting standards as required when they are adopted. This decision to opt out of the extended transition period under the JOBS Act is irrevocable. See Note 2, Summary of Significant Accounting Policies, to our condensed consolidated financial statements included in this report for information about recent accounting pronouncements.

### Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to various market risks in the ordinary course of our business, including primarily the risk that losses may occur in the value of financial instruments as a result of fluctuations in interest rates and foreign currency exchange rates. As of June 30, 2017, we had $11.5 million of cash and cash equivalents, which consist of bank deposits and money market funds, and $34.6 million in marketable securities, which consist of corporate bonds. These interest-bearing instruments carry a degree of risk relating to fluctuations in interest rates; however, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% change in interest rates during the first half of 2017 would not have had a material impact on our financial results.

Revenue from sales outside the United States represented $5.6 million, or 56%, of our revenue in the six months ended June 30, 2017. Historically, all of our revenue-producing transactions have been denominated in U.S. dollars; however, we started billing certain of our Canadian hospital customers in their local currency during the first half of 2017, and as we continue to expand internationally, including our receipt of revenue under our license agreement with FF Gene Biotech, our joint venture in the PRC, our results of operations and cash flows may increasingly become subject to fluctuations due to changes in foreign currency exchange rates. In general, in periods when the U.S. dollar declines in value as compared to foreign currencies in which we record revenue or incur expenses, our foreign-currency based revenue or expenses will increase when translated into U.S. dollars. Conversely, in periods when the U.S. dollar appreciates in value as compared to foreign currencies in which we record revenue or expenses, our foreign-currency based revenue or expenses will decrease when translated into U.S. dollars. In addition, future fluctuations in the value of the

U.S. dollar may affect the prices at which we sell our tests outside the United States. During the first half of 2017, a hypothetical appreciation in value of the U.S. dollar relative to the local currencies of our customers would not have had a material impact on our financial results.

We have not hedged our interest rate or foreign currency risks, although we may consider doing so in the future.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, or Exchange Act, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2017. Disclosure controls and procedures are controls and other procedures of a company that are designed to ensure that information required to be disclosed by the 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 rules and forms of the Securities and Exchange Commission, or SEC. Disclosure controls and procedures include, among others, 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 the company's 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, 2017, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2017, our disclosure controls and procedures were effective.

Management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we may be involved in legal proceedings arising in the ordinary course of business. We are not presently a party, and our properties are not presently subject, to any legal proceedings that, in the opinion of management, would have a material effect on our business. Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity and reputational harm, among other factors.

### Item 1A. Risk Factors.

*Investing in our common stock involves a high degree of risk. Before making any investment decision with respect to our common stock, you should carefully consider the risks described below and all of the other information included in this report and the other filings we make with the SEC. We believe the risks and uncertainties described below are the most significant we face. The occurrence of any of these risks could harm our business, financial condition, results of operations, prospects and reputation and could cause the trading price of our common stock to decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business.*

#### Business and Strategy Risks

**Our industry is subject to rapidly changing technology and new and increasing amounts of scientific data, and if we fail to keep pace with these technological advances, we may be unable to compete effectively and our business and prospects could suffer.**

In recent years, there have been numerous advances in the analysis of large amounts of genomic information and the role of genetics and gene variants in disease diagnosis and treatment. Our industry has been, and we believe will continue to be, characterized by rapid technological change, increasing amounts of data, frequent introductions of new genetic tests and evolving industry standards, all of which could make our tests obsolete if we are not able to enhance our technologies and tests faster and better than our competitors. Our future success will depend on our ability to keep pace with the evolving needs of our customers in a timely and cost-effective manner and to pursue new market opportunities that develop as a result of technological and scientific advances. If we are not able to keep pace with these advances and increased customer expectations that develop as a result of these advances, we may be unable to sustain or grow our business and our future operations and prospects could suffer.

**Our results of operations may fluctuate significantly from period to period and can be difficult to predict.**

Our results of operations have in the past experienced fluctuations from period to period, which we expect may continue in the future. These fluctuations can occur as a result of a variety of factors, including the amount and timing of sales of billable tests, the prices that we charge for our tests due to changes in product mix, customer mix, general price degradation for genetic tests or other factors, the rate and timing of our billing and collections cycles and the timing and amount of our commitments and other payments, as well as the other risk factors discussed in this report. In addition, in certain prior periods, our results have been impacted by events that may not recur regularly, in the same amounts or at all in the future, such as, for example, the negative effect in the first and third quarters of 2016 of increased equity-based compensation expenses associated with grants of fully vested equity-based awards and recognition of previously unrecognized compensation expense in connection with our reorganization from a limited liability company to a corporation, and the negative effect in the second quarter of 2016 of certain other expenses associated with the accounting for one of our equity financings. Moreover, our limited operating history makes it difficult to determine if fluctuations in our performance reflect seasonality or other trends or are the result of other factors or events. These fluctuations in our operating results may render period-to-period comparisons less meaningful, and investors should not rely on the results of any one period as an indicator of future performance. Additionally, these fluctuations in our operating results could cause our performance in any particular period to fall below the expectations of securities analysts or investors, which could negatively affect the price of our common stock.

**We have a history of losses, and we may not be able to sustain or grow profitability.**

We have a history of losses. Although we achieved profitability in the six months ended June 30, 2017, we recorded losses from continuing operations of $25,000 for the three months ended June 30, 2017 and $5.4 million for the year ended December 31, 2016, and we recorded losses from continuing operations in all prior periods. As a result, we may not be able to sustain or grow profitability in any future period. Further, we have generated limited revenue to date, and our historical revenue levels may not grow or even continue. We may incur additional losses in the future, particularly as we focus on growing our business and operations and experience expected increases in expenses related to this growth. Our prior losses and any future losses have had and will continue to have an adverse effect on our stockholders' equity and working capital. Our failure to sustain or grow our revenue levels and

profitability would negatively affect our business, financial condition, results of operations and cash flows, and could cause the market price of our common stock to decline.

**We are an early-stage company with a limited operating history, which may expose us to enhanced risks and increase the difficulty of evaluating our business and prospects.**

We began operations in May 2012 and commercially launched our first genetic tests in 2013. As a result, we have only a limited operating history upon which you can evaluate our business and prospects. Our revenue growth may not continue or increase at historical rates or at all, and we may not be able to sustain or grow profitability. Our limited operating history makes it difficult to evaluate our current business and inhibits our ability to forecast our future operating results, including revenue, cash flows and profitability. We have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in the life sciences and technology industries, such as risks related to an evolving and unpredictable industry and business model, management of growth and other uncertainties described in this report. If our assumptions regarding these risks and uncertainties are incorrect or these risks and uncertainties change due to changes in our markets, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer.

**Our mix of customers can fluctuate from period to period, and the loss of, or a significant reduction in sales to, any of our customers could materially harm our business.**

The composition of our customer base can fluctuate from period to period, as our key customers can experience significant volatility in their genetic testing demand from period to period in the ordinary course of their operations. In certain prior periods, a small number of customers has accounted for a significant portion of our revenue. For instance, in the three and six months ended June 30, 2017, aggregating customers that are under common control or are affiliates, two customers contributed 13% and 12% of our revenue, and three customers contributed 12%, 11% and 11% of our revenue in the respective periods. Generally, we do not have long-term purchase agreements with any of our customers, including these key customers, and as result, any or all of them could decide at any time to discontinue, decrease or delay their orders from us. For example, certain of our international customers, including two of our most significant customers in the first quarter of 2017, ordered significantly fewer tests and generated significantly less revenue to us in the second quarter of 2017. In addition, the failure of any one of our customers to pay on a timely basis would negatively impact our results and cash flows. Our ability to maintain or increase sales to our customers depends on a variety of factors, including the other risk factors discussed in this report, many of which are beyond our control. Because of these and other factors, sales to any of our customers, including our key customers, may not continue in the amounts or at the rates as they have in the past, and such sales may never reach or exceed historical levels in any future period. The loss of any of our customers, or a reduction in orders or difficulties collecting payments from any of them, could significantly reduce our revenue and adversely affect our operating results.

**If we are not able to grow and diversify our customer base and increase demand for our tests from existing and new customers, our commercial success would be limited.**

To achieve our anticipated revenue growth, we must increase test volume by further penetrating our existing hospital and medical institution customers. In addition, we must grow our customer base beyond hospitals and medical institutions and into additional customer groups, such as individual physicians, other practitioners and research institutions. To this end, we have made efforts to diversify our customer market, including developing relationships with a national clinical laboratory and a regional medical network in an effort to fulfill some of the genetic testing needs of the U.S. military and certain other U.S. government agencies. We have also pursued relationships with payors, including Medicare, some state Medicaid programs and third-party payors, in order to obtain coverage and reimbursement for our tests to make them accessible to more individual physicians. Establishing these relationships means that we have agreed with the applicable payor, laboratory or other customer to provide certain of our tests at negotiated rates, but, subject to limited exceptions for minimal amounts, none of these relationships obligate any party to order our tests at any agreed volume or frequency, or at all. Further, our relationships with the U.S. military or any other U.S. government agencies are subject to unique risks associated with government contracts, including cancellation if adequate appropriations for subsequent performance periods are not made and modification or termination at their convenience and without prior notice. As a result, these relationships, or any similar relationships we may establish in the future, may not amount to meaningful increases in our customer base, the number of billable tests we deliver or our revenue, and may not improve our ability to sustain or grow profitability. We may not succeed in facilitating the clinical acceptance and adoption of our tests needed to achieve the increased volumes and customer growth we expect. Because detailed genetic data from tests such as ours have only recently become available at relatively affordable prices, the pace and degree of market acceptance and adoption of these tests is uncertain.

We may fail to expand our customer base and grow our volume of tests delivered for a variety of reasons, including, among others:

- the genetic testing market generally, and particularly the market for next generation sequencing, or NGS, genetic tests, is relatively new and may not grow as predicted or may decline;
- our efforts to improve our existing tests and develop and launch new tests may be unsuccessful;
- we may not be able to convince additional hospitals and medical institutions or additional customer groups, such as individual physicians, other practitioners and research institutions, of the utility of our tests and their potential advantages over existing and new alternatives;
- our efforts to increase our sales force and expand our marketing efforts may fail;
- we may be unsuccessful in demonstrating the benefits of our broad and customizable test menu;
- genetic testing is expensive and many existing and potential new customers may be sensitive to pricing, particularly if we are not able to maintain low prices relative to our competitors;
- potential new customers, particularly individual physicians and other practitioners, may not adopt our tests if coverage and adequate reimbursement are not available;
- negative publicity or regulatory investigations into the actions of companies within our industry could raise doubts about the legitimacy of diagnostic technologies generally, and could result in scrutiny of diagnostic activities by the U.S. Food and Drug Administration, or FDA, or other applicable government agencies; and
- our competitors could introduce new tests that cover more genes or that provide more accurate or reliable results.

If we are unable to address these and other risks associated with growing our customer base and deepening our relationships with existing customers, we may not achieve our anticipated growth in billable tests and our results of operations could be adversely impacted.

**We face intense competition, which is likely to intensify further as existing competitors devote additional resources to, and new participants enter, the genetic testing market, and if we cannot compete successfully, we may be unable to increase our revenue or sustain or grow profitability.**

With the development of NGS, the clinical genetic testing market has become increasingly competitive, and we expect this competition to intensify further in the future. We face competition from a variety of sources, including, among others:

- dozens of companies focused on molecular genetic testing services, including specialty and reference laboratories that offer traditional single-gene and multi-gene tests, such as Ambry Genetics, Inc.; Counsyl Inc.; Foundation Medicine, Inc.; GeneDx, a subsidiary of OPKO Health, Inc.; Invitae Corporation; Myriad Genetics, Inc.; and Pathway Genomics Corporation, as well as other commercial and academic laboratories; and
- established and emerging healthcare, information technology and service companies that may develop and sell competitive tests, which may include informatics, analysis, integrated genetic tools and services for health and wellness.

Additionally, participants in closely related markets, such as prenatal testing and clinical trial or companion diagnostic testing, could converge on offerings that are competitive with the type of tests we perform. Instances where potential competitors are aligned with key suppliers or are themselves suppliers could provide these potential competitors with significant advantages. Further, hospitals, research institutions and eventually individual physicians and other practitioners may also seek to perform at their own facilities the type of genetic testing we would otherwise perform for them. In this regard, continued development of, and associated decreases in the cost of, equipment, reagents and other materials and databases and genetic data interpretation services may enable broader direct participation in genetic testing and analysis and drive down the use of third-party testing companies such as ours. Moreover, the biotechnology and genetic testing fields continue to undergo significant consolidation, permitting larger clinical laboratory service providers to increase cost efficiencies and service levels, resulting in more intense competition.

Many of our existing and potential future competitors have longer operating histories, larger customer bases, greater brand recognition and market penetration, substantially greater financial, technological and research and development resources and selling and marketing capabilities, and considerably more experience dealing with third-party payors. As a result, they may be able to respond more quickly to changes in customer requirements or preferences, devote greater resources to the development, promotion and sale of their tests, obtain more favorable results from third-party payors regarding coverage and reimbursement for their offerings, adopt more aggressive pricing policies for their tests, secure supplies from vendors on more favorable terms or devote substantially more resources to infrastructure and systems development. We may not be able to compete effectively against these organizations.

Additionally, increased competition and cost-saving initiatives on the part of government entities and other third-party payors could result in downward pressure on the price for genetic analysis and interpretation generally, which could harm our sales, our ability to gain market share or our ability to sustain or grow profitability. This downward pricing pressure could intensify in future periods if adoption of genetic testing becomes more widespread, and we may not be able to maintain acceptable margins on our sales if we are forced to reduce prices for our tests to try to remain competitive. In addition, competitors may be acquired by, receive investments from or enter into other commercial relationships with larger, well-established and well-financed companies as use of NGS for clinical diagnosis and preventative care increases. Further, companies or governments that effectively control access to genetic testing through umbrella contracts or regional preferences could promote our competitors or prevent us from performing certain tests in certain territories. If we are unable to compete successfully against current and future competitors, we may be unable to increase market acceptance and sales volume of our tests, which could prevent us from increasing our revenue or sustaining or growing profitability.

**We will need to invest in and expand our infrastructure and hire additional skilled personnel in order to support our anticipated growth, and our failure to effectively manage any future growth could jeopardize our business.**

To increase the volume of tests that we offer and deliver, we must invest in our infrastructure, including our testing capacity and information systems, enterprise software systems, customer service, billing and collections systems and processes and internal quality assurance programs. We will also need to invest in hiring additional skilled personnel, including biostatisticians, geneticists, software engineers, laboratory directors and specialists, sales and marketing experts and other scientific, technical and managerial personnel to market, process, interpret and validate the quality of results of our genetic tests and otherwise manage our operations. For example, before we deliver a report for any of our genetic tests, the results summarized in the report must be reviewed and approved by a licensed and qualified laboratory director. We currently have only one such laboratory director with all of the required licenses, Dr. Han Lin Gao, who conducts this review and approval for each test we deliver. We are in the process of licensing additional laboratory directors to assist Dr. Gao, and we may need to hire more laboratory directors in the future to further scale our business. If we fail to hire additional qualified personnel or otherwise develop our infrastructure sufficiently in advance of demand or if we fail to generate demand commensurate with our level of investment in our infrastructure, our business, prospects, financial condition and results of operations could be adversely affected. Additionally, although we do not presently have plans to acquire new or expand our existing laboratory space, we may need to do so in the future as our volume increases, and any need to obtain an additional facility or replace our existing facility with a larger one would involve significant challenges.

The time and resources required to implement new systems, to add and train additional skilled personnel and to acquire or expand laboratory space as needed are uncertain. Any future growth we may experience could create a strain on our organizational, administrative and operational infrastructure, including laboratory operations, quality control, customer service, sales and marketing and management. We may not be able to maintain the quality of or expected turnaround times for our tests or satisfy customer demand if and when it grows. Our ability to effectively manage any growth we experience will also require us to continue to improve our laboratory and other operational, financial and management systems and controls and our reporting processes and procedures, which we may not be able to do.

**We have limited experience marketing and selling our tests, and our commercial success will depend in part upon our ability to grow our sales and marketing team and generate sales using this relatively small and developing team, as well as our ability to develop successful sales and marketing plans for international sales.**

We have limited experience marketing and selling our tests, which we began selling in 2013. We may not be able to market or sell our existing tests or any tests we may develop in the future in order to drive demand sufficient to support our planned growth. We currently sell our tests in the United States through a small internal sales force and outside the United States through one internal sales person and we have historically relied significantly on organic growth and word-of-mouth among our customers to generate interest in our tests. Our ability to maintain and grow sales volume in the future will depend in large part upon our ability to develop and substantially expand our sales team, create and implement an effective sales and marketing strategy and increase the scope of our marketing efforts. We have been aggressively building our sales and marketing function in recent periods and we plan to continue to do so in the near-term, with the goal of continuing to increase the size of our sales and marketing team over the next 12 months, in order to pursue expansion of our customer base and growth in the volume of tests ordered. This expansion will involve significant time and expense. Additionally, we may not be able to attract and hire the qualified personnel we need to grow our sales and marketing team as quickly or as successfully as we would like for various reasons, including intense competition in our industry for qualified personnel and our relative lack of experience marketing our tests. Even if we are able to further develop our sales and marketing team, we have limited experience managing such a team and it may not be successful in growing our customer base or increasing penetration into our existing customers.

In addition, our future sales levels will depend in large part upon our ability to expand our brand awareness, grow our customer base and further penetrate our relationships with existing customers by educating the medical community, including existing and

potential future customers, about the benefits and the full scale of our offering. We also intend to continue to obtain publication of scientific and medical results in peer-reviewed journals and make presentations at leading industry conferences. We have limited experience with this type of activity and we may not be successful in implementing these initiatives or other marketing strategies that we may develop and pursue. If we are not able to drive sufficient revenue using our sales and marketing strategies to support our planned growth, our business and results of operations would be negatively affected. Additionally, if we are not able to obtain sufficient clinical information in support of our tests, third-party payors could designate our tests as experimental or investigational and decline to cover and reimburse our tests as a result of such designation.

We also intend to continue to increase our focus on growing our international sales and customer base. Outside the United States, we use and intend to continue to use one internal sales person, and we may also engage distributors or establish other types of arrangements, such as joint ventures or other relationships, to manage or assist with sales, logistics, education and customer support in certain territories. To this end, we have worked with Xi Long USA, Inc., or Xi Long, a large stockholder of our company, to establish a joint venture in April 2017, which we refer to as FF Gene Biotech, to offer genetic testing to customers in the People’s Republic of China, or PRC. Although we believe this joint venture could result in expanded long-term opportunities to address the genetic testing market in Asia, these expectations could turn out to be wrong and we may never realize the benefits we anticipate from this joint venture. In general, we believe identifying, qualifying and engaging distributors or other commercial partners with local industry experience and knowledge will be necessary to effectively market and sell our tests outside the United States. To date, we have not established any such distributorships or other commercial partnerships to cover any non-U.S. territories, except for the establishment of the FF Gene Biotech joint venture in the PRC. As a result, we may not be successful in finding, attracting and retaining qualified distributors or other commercial partners or we may not be able to enter into arrangements covering desired territories on favorable terms. In addition, sales practices utilized by distributors or other commercial partners that are locally acceptable may not comply with sales practices or standards required under U.S. laws that apply to us, which could subject us to additional compliance risks. If our sales and marketing efforts outside the United States are not successful, we may not achieve significant acceptance for our tests in international markets, which could materially and adversely impact our business operations.

**If we are sued for product or professional liability, we could face substantial liabilities that exceed our resources.**

Our business depends upon our ability to provide reliable and accurate test results that incorporate rapidly evolving information about the role of genes and gene variants in disease and clinically relevant outcomes associated with these variants. Hundreds of genes can be implicated in some disorders and overlapping networks of genes and symptoms can be implicated in multiple conditions. As a result, a substantial amount of judgment is required in order to interpret the results of each test we perform and produce a report summarizing these results. Errors, such as failures to detect genomic variants with high accuracy, or mistakes, such as failures to completely and correctly identify the significance of gene variants, could subject us to product liability or professional liability claims. A product liability or professional liability claim against us could result in substantial damages and be costly and time-consuming to defend. Although we maintain liability insurance, including for errors and omissions, our insurance may not fully protect us from the financial impact of defending against these types of claims or any judgments, fines or settlement costs arising out of any such claims. Any liability claim brought against us, with or without merit, could increase our insurance rates or prevent us from securing adequate insurance coverage in the future. Additionally, any liability lawsuit could damage our reputation or force us to suspend sales of our tests. The occurrence of any of these events could have a material adverse effect on our business, reputation and results of operations.

**Our ability to sustain or grow profitability depends upon our ability to collect payment for the tests we deliver, which we may not be able to do successfully.**

Since starting our genetic testing business, we have been focused primarily on providing our tests to hospitals and medical institutions. These customers are typically able to pay for the cost of our tests using funds reimbursed in connection with a patient’s diagnosis related group, or DRG. However, our ability to collect payment for the tests we deliver to our hospital and medical institution customers, as well as to other types of customers, is subject to a number of risks, many of which are not within our control. These risks include risks of default or bankruptcy by the party responsible for payment and other risks associated with payment collection generally. Further, healthcare policy changes that influence the way healthcare is financed or other changes in the market that impact payment rates by institutional or non-institutional customers could affect our collection rates. For example, because reimbursement under a DRG is typically provided at a fixed amount intended to cover all services provided to the patient, the cost of our tests may be viewed to limit the profitability of the billing institution. If we are unable to convince hospitals and medical institutions of the value and benefit provided by our tests, or if the amount reimbursed under these DRG codes is decreased, these customers may slow, or stop altogether, their purchasing of our tests. Moreover, our ability to collect payment for our tests in a timely manner or at all may decline to the extent we expand our business into new customer groups, including individual physicians and other practitioners, from which collection rates may be lower than hospitals and medical institutions. Any inability to maintain our past payment collection levels could cause our revenues and profitability to decline.

**If third-party payors do not provide coverage and adequate reimbursement for our tests, our commercial success could be limited.**

Coverage and reimbursement by third-party payors, including managed care organizations, private health insurers and government healthcare programs, such as Medicare and Medicaid, for the types of genetic tests we perform can be limited and uncertain. Although our existing customer base consists primarily of hospitals and medical institutions, from which we typically receive direct payment for ordered tests, we believe our potential for future success is dependent upon our ability to attract new customer groups, including individual physicians and other practitioners. These practitioners may not order our tests unless third-party payors cover and provide adequate reimbursement for a substantial portion of the price of our tests. If we are not able to obtain coverage and an acceptable level of reimbursement for our tests from third-party payors, there would typically be a greater co-insurance or co-payment requirement from the patient for whom the test is ordered or the patient may be forced to pay the entire cost of the test out-of-pocket, which could dissuade practitioners from ordering our tests and, if ordered, could result in delay in or decreased likelihood of our collection of payment, whether from patients or from third-party payors. We believe our ability to increase the number of tests we sell and our revenue will depend upon our success in achieving broad coverage and reimbursement for our tests from third-party payors.

Coverage and reimbursement by a third-party payor may depend on a number of factors, including a payor's determination that a test is appropriate, medically necessary and cost-effective. Each payor makes its own decision as to whether to establish a policy or enter into a contract to cover our tests and the amount it will reimburse for a test, and seeking a determination by a payor to cover our tests and the amount it will reimburse for our tests would likely be made on an indication-by-indication basis. In addition, the coding procedure used by all third-party payors with respect to establishing payment rates for various procedures, including our tests, is complex, does not currently adapt well to the genetic tests we perform and may not enable coverage and adequate reimbursement rates for our tests. As a result, obtaining approvals from third-party payors to cover our tests and establishing adequate reimbursement levels is an unpredictable, challenging, time-consuming and costly process, and we may never be successful.

To date, we have contracted with one regional physician services organization and one national health insurance company to become an in-network provider. We have also enrolled as a supplier in the Medicare program and in 15 state Medicaid programs, but we have not obtained any coverage, pricing or reimbursement approvals from payors in any countries outside the United States. Although becoming an in-network provider or enrolling as a supplier means that we have agreed with these payors to provide certain of our tests at negotiated rates, it does not obligate any physicians to order our tests or guarantee that we will receive reimbursement for our tests from these or any other payors at adequate levels. Thus, these payor relationships, or any similar relationships we may establish in the future, may not result in acceptable levels of reimbursement for our tests or meaningful increases in our physician customer base or the number of billable tests we sell to physicians. We expect to focus on increasing coverage and reimbursement for our current tests and any future tests we may develop. We believe it may take several years to achieve coverage and adequate contracted reimbursement with third-party payors. However, we cannot predict whether, under what circumstances, or at what payment levels payors will cover and reimburse for our tests. If we fail to establish and maintain broad coverage and reimbursement for our tests, our ability to generate increased revenue and grow our test volume and customer base could be limited and our future prospects and our business could suffer.

**If our sole laboratory facility becomes inoperable, if we are forced to vacate the facility or if we are unable to obtain additional laboratory space as and when needed, we would be unable to perform our tests and our business would be harmed.**

We perform all of our tests at a single laboratory in Temple City, California. Our laboratory facility could be damaged or rendered inoperable by natural or man-made disasters, including earthquakes, floods, fires and power outages, which could render it difficult or impossible for us to perform our tests for some period of time. The inability to perform our tests or the backlog that could develop if our laboratory is inoperable for even a short period of time could result in the loss of customers or harm to our reputation. Although we maintain insurance for damage to our property and the disruption of our business, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, if at all.

Further, if we need to move to a different facility or locate additional laboratory space as our business grows, we may have difficulty locating suitable space in a timely manner, on reasonable terms or at all, and even if acceptable space was available, it would be challenging, time-consuming and expensive to obtain or transfer the licensure and accreditation required for a commercial laboratory like ours and the equipment we use to perform our tests. These challenges could be amplified if we or our joint ventures or other commercial partners, such as FF Gene Biotech, seek to procure and maintain laboratory space outside the United States as we pursue international expansion. If we are unable to obtain or are delayed in obtaining new laboratory space as needed, we may not be able to provide existing tests or develop and launch new tests, which could result in harm to our business, reputation, financial condition and results of operations.

**Ethical, legal and social concerns related to the use of genetic information could reduce demand for our tests.**

Genetic testing has raised ethical, legal and social issues regarding privacy and the appropriate uses of the resulting information. Government authorities could, for social or other purposes, limit or regulate the use of genetic information or genetic testing or prohibit testing for genetic predisposition to certain conditions, particularly for those that have no known cure. Similarly, these concerns may lead patients to refuse to use or physicians to be reluctant to order genetic tests, even if permissible. These and other ethical, legal and social concerns may limit market acceptance and adoption of our tests or reduce the potential markets for our tests, any of which could have an adverse effect on our business, financial condition and results of operations.

**We rely on a limited number of suppliers and, in some cases, a sole supplier, for some of our laboratory instruments and materials and we may not be able to find replacements or immediately transition to alternative suppliers if necessary.**

We rely on a limited number of suppliers, or, in the case of Illumina, Inc., a sole supplier, for certain laboratory substances used in the chemical reactions incorporated into our processes, which we refer to as reagents, as well as for the sequencers and various other equipment and materials that we use in our laboratory operations. We do not have long-term agreements with any of our suppliers and, as a result, they could cease supplying these materials and equipment to us at any time or fail to provide us with sufficient quantities of materials that meet our specifications. Our laboratory operations would be interrupted if we encounter delays or difficulties in securing these reagents, sequencers or other equipment or materials or if we need a substitute for any of our suppliers and are not able to locate and make arrangements with an acceptable substitute. Any such interruption could significantly affect our business, financial condition, results of operations and reputation. We rely on Illumina as the sole supplier of the next generation sequencers and associated reagents we use to perform our genetic tests and as the sole provider of maintenance and repair services for these sequencers. Any disruption in Illumina’s operations could impact our supply chain and laboratory operations as well as our ability to conduct our tests.

We believe there are only a few other manufacturers that are currently capable of supplying and servicing the equipment necessary for our laboratory operations, including sequencers and various associated reagents. Transitioning to a new supplier would be time-consuming and expensive, could result in interruptions in or otherwise affect the performance specifications of our laboratory operations or could require that we revalidate our tests. In addition, the use of equipment or materials provided by a replacement supplier could require us to alter our laboratory operations and procedures. In the case of obtaining an alternative supplier for Illumina, replacement sequencers and associated reagents that meet our quality control and performance requirements may not be available on reasonable terms, in a timely manner or at all. If we encounter delays or difficulties in securing, reconfiguring or revalidating the equipment and reagents we require for our tests, our business, financial condition, results of operations and reputation would be adversely affected.

**We rely on a third party for certain portions of our billing and collection processing, which is complex and time-consuming, and any delay in transmitting and collecting claims could have an adverse effect on our future revenue.**

We have engaged a third-party service provider for certain claims processing, billing and collection functions. Billing for our tests is complex, time-consuming and expensive. Depending on the billing arrangement and applicable law, we plan to bill various payors, including customers directly in the case of our hospital and medical institution customers, as well as Medicare, Medicaid, insurance companies and patients, all of which may have different billing requirements. We may face increased risk in our collection efforts due to the complexities of these billing requirements, including long collection cycles, which could adversely affect our business, results of operations and financial condition.

Several factors make the billing process complex, including:

- differences between the list price for our tests and the reimbursement rates of payors;
- compliance with complex federal and state regulations related to billing government healthcare programs, including Medicare and Medicaid;
- disputes among payors as to which party is responsible for payment;
- differences in coverage among payors and the effect of patient co-payments or co-insurance;
- differences in information and billing requirements among payors;
- incorrect or missing billing information; and
- the resources required to manage the billing and claims appeals process.

Even though we have engaged a third party to assist with some of these billing and collections functions, we will still need to make significant efforts and expend substantial resources to develop systems and procedures to handle these aspects of our business, which will become increasingly important as we focus on establishing coverage and reimbursement policies with third-party payors. As a result, these billing complexities, along with the related uncertainty in obtaining payment for our tests, could negatively affect our revenue and cash flow, our ability to sustain or grow profitability and the consistency and comparability of our results of operations. In addition, if claims for our tests are not submitted to payors on a timely basis, or if we are required to switch to a different provider to handle our processing and collections functions, it could have an adverse effect on our revenue and our business.

**We are exposed to additional business, regulatory, political, operational, financial and economic risks related to our international operations.**

Our existing customer base includes many international customers. Approximately $2.4 million and $5.6 million of our revenue came from non-U.S. customers in the three and six months ended June 30, 2017, respectively, and of this, approximately $1.1 million and $2.2 million in the respective periods came from customers located in Canada and approximately $522,000 and $2.0 million in the respective periods came from customers located in the PRC. Our business strategy includes plans to increase this volume of direct sales to customers in a variety of geographic markets, including Canada, the PRC and others, and to engage distributors or establish other types of arrangements, such as joint ventures or other relationships, to conduct physician outreach activities, develop and expand payor relationships outside the United States, or otherwise expand our presence and test volume in existing foreign markets or enter into new geographic markets.

To this end, in April 2017, our joint venture FF Gene Biotech was established to offer genetic testing to customers in the PRC. Although we believe this joint venture could result in expanded long-term opportunities to address the genetic testing market in Asia, this expectation could turn out to be wrong. This joint venture is subject to a number of risks, including, among others, difficulties predicting the market for genetic testing in Asia, local differences in customer demands and preferences and regulatory requirements, and our lack of control over FF Gene Biotech due to our non-majority ownership interest, as well as the other risks of doing business in international markets that are discussed below. Further, we could experience declines in our direct sales to customers in Asia if any of these customers choose to obtain genetic testing services from FF Gene Biotech instead of from us. As a result of these risks, we may never realize the benefits we anticipate from this joint venture or any other joint venture we may seek to establish, the joint venture may never produce sufficient revenue to us to recover our capital and other investments, or any revenue at all, the joint venture could cause our revenue to decrease if it results in our loss of any direct customers in Asia, and we could become subject to liabilities based on our involvement in its operations.

In general, doing business internationally involves a number of risks, including, among others:

- multiple, conflicting and evolving laws and regulations, such as privacy regulations, tax laws, employment laws, regulatory requirements and other government approvals, permits and licenses;
- logistics associated with the shipment of blood or other tissue specimens, including infrastructure conditions, transportation delays and the impact of U.S. and local laws and regulations, such as export and import restrictions, tariffs or other charges and other trade barriers, all of which involve increased uncertainty following the results of the 2016 U.S. presidential election and the trade policies of the current administration, which may threaten existing and proposed trade agreements and impose more restrictive U.S. export-import regulations;
- limits on our ability to penetrate international markets if we do not conduct our tests locally, including local legal and regulatory requirements that would force us to build additional laboratories or engage in joint ventures or other relationships in order to offer our tests in certain countries, which relationships could deny us control over certain aspects of the foreign operations or reduce the economic value to us of these operations;
- failure by us, any joint ventures or other arrangements we may establish or any distributors or other commercial partners we may engage to obtain regulatory approvals for the use of our tests in various countries;
- complexities and difficulties in obtaining protection for and enforcing our intellectual property;
- difficulties in staffing and managing foreign operations;
- complexities associated with managing multiple payor coverage and reimbursement regimes, government payors or patient self-pay systems;
- financial risks, such as longer payment cycles, difficulty collecting accounts receivable and the impact of local and regional financial conditions on demand and payment for our tests;

- exposure to foreign currency exchange rate fluctuations, including increased risk with respect to the Canadian dollar after we recently started billing certain of our Canadian hospital customers in their local currency and with respect to the Chinese renminbi, or RMB, related to recording revenue under our license agreement with FF Gene Biotech;
- risks relating to conversion and repatriation of certain foreign currencies, including particularly the RMB, which is subject to legal procedures and restrictions on currency conversion and movement outside the PRC and which could impact our ability to receive the anticipated financial benefits of our FF Gene Biotech joint venture;
- natural disasters, political and economic instability, including wars, terrorism, and political unrest, outbreak of disease, boycotts, curtailment of trade and other business restrictions; and
- regulatory and compliance risks that relate to prohibiting bribery and maintaining accurate information and control over activities that may fall within the purview of applicable anti-bribery laws.

Any of these factors could significantly harm our existing relationships with international customers or derail our international expansion plans, which would cause our revenue and results of operations to suffer.

**We may not be successful in developing and marketing new tests, which could negatively impact our performance and prospects.**

We believe our future success will depend upon our ability to continue to expand our test offering and develop and sell new tests. For instance, in the third quarter of 2016, we launched a chromosomal test called CNV+ that is designed to use NGS technology to detect copy number variants with similar or improved results as compared to microarray-based genomic tests. We expect these tests will target customers that are already using microarray-based testing; however, these tests may not be accepted as a replacement for microarray-based tests and they may not be adopted by these customers or at all. In addition, we launched carrier screening tests in August 2017, and we intend to expand upon these tests in future periods with larger panels that cover more genes. We may not be successful in launching or marketing these or any other new tests we may develop or, if we are successful, the demand for our other tests could decrease or may not continue to increase at historical rates due to sales of the new tests.

Our pipeline of new tests is in various stages of development and will be time-consuming and costly to fully develop and introduce, as development and marketing of new tests requires us to conduct research and development and further develop and scale our laboratory processes and infrastructure to be able to analyze increasing amounts of more diverse data. Further, we may be unable to discover or develop new tests for a variety of reasons, including failure of any proposed test to perform as expected, lack of validation or reference data for the test or failure to demonstrate the utility of the test. Further, any new test we are able to develop may not be launched in a timely manner, meet applicable regulatory standards, successfully compete with other technologies and available tests, avoid infringing the proprietary rights of others, achieve coverage and adequate reimbursement from third-party payors, be capable of performance at commercial levels and at reasonable costs, be successfully marketed or achieve sufficient market acceptance for us to recoup our time and capital investment in the development of the test. Any failure to successfully develop and sell new tests could negatively impact our ability to attract and retain customers and our revenue and prospects.

**Actual or attempted security breaches, loss of data and other disruptions could compromise sensitive information related to our business or to patients or prevent us from accessing critical information, any of which could expose us to liability and adversely affect our business and our reputation.**

In the ordinary course of our business, we and a third-party billing and collections provider that we have engaged generate, collect and store sensitive data, including protected health information, or PHI, personally identifiable information, intellectual property and proprietary information and other business-critical information, such as research and development data, commercial information and business and financial information. We manage and maintain the data we generate, collect and store utilizing a combination of on-site systems and managed data center systems. We also communicate sensitive patient data when we deliver reports summarizing test results to our customers, which we deliver via our online encrypted web portal, encrypted email or fax or overnight courier. We face a number of risks related to protecting this information, including loss of access, inappropriate disclosure, unauthorized modification and inability to adequately implement protective controls.

The secure processing, storage, maintenance and transmission of this critical information are vital to our operations and business strategy and we devote significant resources to protecting the confidentiality and integrity of this information. Although we have implemented security measures designed to protect sensitive information from unauthorized access, use or disclosure, our information technology and infrastructure and that of our third-party billing and collections provider could fail, be inadequate or vulnerable to attacks by hackers or viruses or be breached due to employee error, malfeasance or other disruptions. A breach or interruption could compromise our information systems and the information we store could be accessed by unauthorized parties, manipulated, publicly disclosed, lost or stolen. Any such unauthorized access, manipulation, disclosure or other loss of information could result in legal

claims or proceedings and could result in liability or penalties under federal and state laws that protect the privacy of personal information, discussed below under "—We are subject to broad legal requirements regarding the information we test and analyze and any failure to comply with these requirements could result in harsh penalties, damage our reputation and materially harm our business." Additionally, unauthorized access, manipulation, loss or dissemination could significantly damage our reputation and disrupt our operations, including our ability to perform our tests, analyze and provide test results, bill customers or other payors, process claims for reimbursement, provide customer service, conduct research and development activities, collect, process, and prepare company financial information, conduct education and outreach activities and manage the administrative aspects of our business, any of which could adversely affect our business.

**The loss of any member of our senior management team could adversely affect our business.**

Our success depends in large part upon the skills, experience and performance of our executive management team and others in key leadership positions, especially Ming Hsieh, our founder and Chief Executive Officer, and Dr. Gao, our Chief Scientific Officer and Lab Director. The continued efforts of these persons will be critical to us as we continue to develop our technologies and test processes and focus on growing our business. If we lose one or more key executives, we could experience difficulties maintaining our operations, including delivering reports to customers after review and approval by a licensed and qualified laboratory director, competing effectively, advancing our technologies, developing new tests and implementing our business strategies. All of our executives and employees, including Mr. Hsieh and Dr. Gao, are at-will, which means that either we or the executive or employee may terminate their employment at any time. We do not carry key man insurance for any of our executives or other employees. In addition, we do not have a long-term retention agreement in place with any of our executives or key employees.

**We rely on highly skilled personnel in a broad array of disciplines, and if we are unable to hire, retain or motivate these individuals, we may not be able to maintain the quality of our tests or grow effectively.**

Our performance, including our research and development programs and laboratory operations, largely depends upon our continued ability to identify, hire, train, motivate and retain highly skilled personnel for all areas of our organization, including biostatisticians, geneticists, software engineers, laboratory directors and specialists, sales and marketing experts and other scientific, technical and managerial personnel. Competition in our industry for qualified executives and other employees is intense and we may not be able to attract or retain the qualified personnel we need to execute our business plan due to high levels of competition for these personnel among our competitors, other life science businesses, universities and public and private research institutions. In addition, our compensation arrangements may not be successful in attracting new employees and retaining and motivating our existing employees. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that could adversely affect our ability to expand our business and support our clinical laboratory operations and our sales and marketing and research and development efforts, which would negatively affect our prospects for future growth and success.

**Our inability to obtain additional capital in the future when needed and on acceptable terms may limit our ability to execute our business plans.**

We expect our capital expenditures and operating expenses to increase over the next several years as we expand our infrastructure, sales and marketing and other commercial operations and research and development activities. We may seek to raise additional capital through securities offerings, credit facilities or other debt financings, asset sales or collaborations or licensing arrangements. Additional funding may not be available to us when needed, on acceptable terms or at all. If we raise funds by issuing equity securities, our existing stockholders could experience substantial dilution. Additionally, any preferred equity securities we issue could provide for rights, preferences or privileges senior to those of our common stock, and our issuance of any additional equity securities, or the possibility of such an issuance, could cause the market price of our common stock to decline. The terms of any debt securities we issue or borrowings we incur, if available, could impose significant restrictions on our operations, such as limitations on our ability to incur additional debt or issue additional equity or other operating restrictions that could adversely affect our ability to conduct our business, and would result in increased fixed payment obligations. In the event that we seek to sell assets or enter into collaborations or licensing arrangements to raise capital, we may be required to accept unfavorable terms or relinquish or license to a third party our rights to important or valuable technologies or tests we may otherwise seek to develop ourselves. Moreover, we may incur substantial costs in pursuing future capital, including investment banking, legal and accounting fees, printing and distribution expenses and other costs. If we are not able to secure funding if and when needed and on reasonable terms, we may be forced to delay, reduce the scope of or eliminate one or more sales and marketing initiatives, research and development programs or other growth plans or strategies. In addition, we may be forced to work with a partner on one or more aspects of our tests or market development programs or initiatives, which could lower the economic value of these tests, programs or initiatives to our company. Any such outcome could significantly harm our business, performance and prospects.

**We may acquire businesses or assets, form joint ventures, make investments in other companies or technologies or establish other strategic relationships that could harm our operating results, dilute our stockholders' ownership or cause us to incur debt or significant expense.**

As part of our business strategy, we may pursue acquisitions of complementary businesses or assets, investments in other companies, technology licensing arrangements, joint ventures or strategic relationships, including relationships with pharmaceutical companies to further develop our pharmacogenomics opportunities. As an organization, we have limited experience with respect to acquisitions, investments or the formation of strategic relationships or joint ventures. If we make acquisitions in the future, we may not be able to successfully integrate the acquired businesses or technologies into our existing business, we could assume unknown or contingent liabilities and we could be forced to record significant write-offs or incur debt as a result of the acquisitions, any of which could harm our operating results. Further, integration of an acquired business or technology could require management and capital resources that otherwise would be available for ongoing development of our existing business or pursuit of other opportunities. If we pursue relationships with pharmaceutical companies, our ability to establish and maintain these relationships could be challenging due to several factors, including competition with other genetic testing companies and internal and external constraints placed on pharmaceutical organizations that limit the number and type of relationships they can establish with companies like ours. Moreover, we may not be able to identify or complete any acquisition, investment, technology license, joint venture or strategic relationship in a timely manner, on a cost-effective basis or at all, and we may not realize the anticipated benefits of any such transaction sufficiently to recoup our costs.

To finance any acquisitions, investments, joint ventures or strategic relationships, we may seek to raise additional funds through securities offerings, credit facilities, asset sales or collaborations or licensing arrangements. Each of these methods of fundraising is subject to a variety of risks, including those discussed above under "—Our inability to obtain additional capital when needed and on acceptable terms in the future may limit our ability to execute our business plan." Further, additional funds may not be available when needed, on acceptable terms or at all. We may also seek to fund these transactions with issuances of our capital stock, even if the price of our common stock is low or volatile, which would involve risks associated with capital-raising equity offerings, including dilution to existing stockholders and the possible decline of the market price of our common stock. Any inability to fund acquisitions, investments or strategic relationships could cause us to forfeit opportunities that we believe to be promising or valuable, which could harm our prospects.

**We depend on our information technology systems and any failure of these systems, due to hardware or software failures, delays in operation, failures to implement new or enhanced systems or cybersecurity breaches, could harm our business.**

We depend on information technology and telecommunications systems for significant elements of our operations, such as our laboratory information management systems, including test validation, specimen tracking and quality control, our bioinformatics analytical software systems, our expansive reference library of information relating to genetic variants and their role in disease, personal information storage, maintenance and transmission, our customer-facing web-based software and customer service, our report production systems and our billing and reimbursement, research and development, scientific and medical data analysis and general administrative activities, including our disclosure controls, internal control over financial reporting and other public reporting functions. In addition, our third-party service providers depend upon technology and telecommunications systems in order to provide the contracted services for us. Now that we are a public company, we expect that we will need to continue to expand and strengthen a number of enterprise software systems that affect a broad range of business processes and functions, particularly as our operations grow, including, for example, systems handling human resources, financial and other disclosure controls and reporting, customer relationship management, regulatory compliance, security controls and other infrastructure operations.

Information technology and telecommunications systems are vulnerable to disruption and damage from a variety of sources, including power outages and other telecommunications or network failures, natural disasters, the outbreak of war or acts of terrorism. Moreover, despite network security and back-up measures, our servers and other electronic systems are potentially vulnerable to cybersecurity breaches, such as physical or electronic break-ins, computer viruses and similar disruptive events. Despite the precautionary measures we have taken to detect and prevent or solve problems that could affect our information technology and telecommunications systems, there may be failures or significant downtime of these systems or those used by our third-party service providers. Any such failure or downtime could prevent us from conducting tests, preparing and providing reports to customers, billing payors, handling customer inquiries, conducting research and development activities, maintaining our financial and disclosure controls and other reporting functions and managing the administrative aspects of our business. Moreover, any such failure or downtime could force us to transfer data collection operations to an alternate provider of server-hosting services, which could involve significant costs and could result in further delays in our ability to conduct tests, deliver reports to our customers and otherwise manage our operations. Any such disruption or loss of information technology or telecommunications systems on which critical aspects of our operations depend could have a material adverse effect on our business and our reputation.

Additionally, as our business grows, we will need to continually improve and expand the scope of our technology systems in order to maintain adequate systems for the scale of our operations. Any failure to make such improvements or any significant delay in the planned delivery of new systems or system enhancements could render our systems obsolete or inadequate, in which case our service to our customers and our other business activities could suffer and we could be more vulnerable to electronic breaches from outside sources.

Although we carry property and business interruption insurance, the coverage may not be adequate to compensate for all losses that may occur in the event of any system failures.

**We rely on commercial courier delivery services to transport specimens to our laboratory facility in a timely and cost-efficient manner, and if these delivery services are disrupted, our business would be harmed.**

Our business depends on our ability to quickly and reliably deliver test results to our customers. Specimens are typically received within days for analysis at our Temple City, California laboratory. Disruptions in delivery service, whether due to labor disruptions, bad weather, natural disaster, terrorist acts or threats or for other reasons could adversely affect specimen integrity and our ability to process specimens in a timely manner and otherwise service our customers, and ultimately our reputation and our business. In addition, if we are unable to continue to obtain expedited delivery services on commercially reasonable terms, our operating results may be adversely affected.

**Regulatory Risks**

**Any changes in laws, regulations or the enforcement discretion of the FDA with respect to the marketing of diagnostic products, or violations of laws or regulations by us, could adversely affect our business, prospects, results of operations or financial condition.**

The laws and regulations governing the marketing of diagnostic products are evolving, extremely complex and in many instances there are no significant regulatory or judicial interpretations of these laws and regulations. Pursuant to its authority under the federal Food, Drug, and Cosmetic Act, or FDC Act, the FDA has jurisdiction over medical devices, including our tests. Among other things, pursuant to the FDC Act and its implementing regulations, the FDA regulates the research, testing, manufacturing, safety, labeling, storage, recordkeeping, premarket clearance or approval, marketing and promotion, and sales and distribution of medical devices in the United States to ensure that medical products distributed domestically are safe and effective for their intended uses. In addition, the FDA regulates the import and export of medical devices.

Although the FDA has statutory authority to assure that medical devices, including our tests, are safe and effective for their intended uses, the FDA has historically exercised its enforcement discretion and not enforced applicable provisions of the FDC Act and regulations with respect to laboratory developed tests, or LDTs, which are a particular type of medical device. We believe our tests are LDTs. As a result, we believe our tests are not currently subject to the FDA's enforcement of its medical device regulations and the applicable FDC Act provisions.

Even though we commercialize our tests as LDTs, our tests may in the future become subject to more onerous regulation by the FDA. For example, the FDA may disagree with our assessment that our tests fall within the definition of an LDT and seek to regulate our tests as medical devices. Moreover, the FDA has issued certain guidance stating that it intends to modify its policy of enforcement discretion with respect to LDTs and begin to enforce its medical device requirements, including premarket submission requirements, for LDTs that have historically been marketed without FDA premarket review and oversight. Subsequently, the FDA published a discussion paper in which it outlined a substantially revised possible approach to the oversight of LDTs, and published two draft guidance documents relating to FDA oversight of NGS-based tests. This discussion paper and these two draft guidance documents describe the FDA's current thinking and proposed approach regarding LDTs and NGS-based tests. However, none of these documents represent finalized guidance from the FDA regarding enforcement of these tests. Until the FDA finalizes its guidance regarding LDTs and NGS-based tests, it is unknown how the FDA may regulate our tests in the future and what testing and data may be required to support any required clearance or approval.

If the FDA begins to enforce its medical device requirements for LDTs or if the FDA disagrees with our assessment that our tests are LDTs, we could for the first time be subject to enforcement of a variety of regulatory requirements, including registration and listing, medical device reporting and quality control, and we could be required to obtain premarket clearance or approval for our existing tests and any new tests we may develop, which may force us to cease marketing our tests until we obtain the required clearance or approval. The premarket review process can be lengthy, expensive, time-consuming and unpredictable. Further, obtaining pre-market clearance may involve, among other things, successfully completing clinical trials. Clinical trials require significant time and cash resources and are subject to a high degree of risk, including risks of experiencing delays, failing to complete the trial or obtaining unexpected or negative results. If we are required to obtain premarket clearance or approval and/or conduct premarket

clinical trials, our development costs could significantly increase, our introduction of any new tests we may develop may be delayed and sales of our existing tests could be interrupted or stopped. Any of these outcomes could reduce our revenue or increase our costs and materially adversely affect our business, prospects, results of operations or financial condition. Moreover, any cleared or approved labeling claims may not be consistent with our current claims or adequate to support continued adoption of and reimbursement for our tests. For instance, if we are required by the FDA to label our tests as investigational, or if labeling claims the FDA allows us to make are limited, order levels may decline and reimbursement may be adversely affected. As a result, we could experience significantly increased development costs and a delay in generating additional revenue from our existing tests or from tests we may develop.

In addition, while we qualify all materials used in our products in accordance with the regulations and guidelines of the Clinical Laboratory Improvement Amendments of 1988, or CLIA, the FDA could promulgate regulations or guidance documents impacting our ability to purchase materials necessary for the performance of our tests. If any of the reagents we obtain from suppliers and use in our tests are affected by future regulatory actions, our business could be adversely affected, including by increasing the cost of testing or delaying, limiting or prohibiting the purchase of reagents necessary to perform testing with our products.

Failure to comply with any applicable FDA requirements could trigger a range of enforcement actions by the FDA, including warning letters, civil monetary penalties, injunctions, criminal prosecution, recall or seizure, operating restrictions, partial suspension or total shutdown of operations and denial of or challenges to applications for clearance or approval, as well as significant adverse publicity.

**If we fail to comply with applicable federal, state, local and foreign laboratory licensing requirements, we could lose the ability to perform our tests or experience disruptions to our business.**

We are subject to CLIA, a federal law that establishes quality standards for all laboratory testing and is intended to ensure the accuracy, reliability and timeliness of patient results. CLIA requires that we hold a certificate specific to the laboratory examinations we perform and that we comply with various standards with respect to personnel qualifications, facility administration, proficiency testing, quality control, quality assurance and inspections. CLIA certification is required in order for us to be eligible to bill federal and state healthcare programs, as well as many private third-party payors, for our tests. We have obtained CLIA certification to conduct our tests at our laboratory in Temple City, California. To renew this certification, we are subject to survey and inspection every two years and we may be subject to additional unannounced inspections.

We are also required to maintain a license to conduct testing in the State of California. California laws establish standards for day-to-day operation of our clinical reference laboratory in Temple City, including with respect to the training and skills required of personnel, quality control and proficiency testing requirements. In addition, certain other states require us to maintain out-of-state laboratory licenses or obtain approval on a test-specific basis to perform testing on specimens from these states. Additional states could adopt similar licensure requirements in the future, which could require us to modify, delay or discontinue our operations in such jurisdictions. We are also subject to regulation in foreign jurisdictions, which we expect will increase as we seek to expand international utilization of our tests or if jurisdictions in which we pursue operations adopt new or modified licensure requirements. Foreign licensure requirements could require review and modification of our tests in order to offer them in certain jurisdictions or could impose other limitations, such as restrictions on the transport of human blood or other tissue necessary for us to perform our tests that may limit our ability to make our tests available outside the United States. Additionally, complying with licensure requirements in new jurisdictions may be expensive, time-consuming and subject us to significant and unanticipated delays.

Failure to comply with applicable clinical laboratory licensure requirements could result in a range of enforcement actions, including license suspension, limitation or revocation, directed plan of correction, onsite monitoring, civil monetary penalties, civil injunctive suits, criminal sanctions and exclusion from the Medicare and Medicaid programs, as well as significant adverse publicity. Any sanction imposed under CLIA, its implementing regulations or state or foreign laws or regulations governing clinical laboratory licensure, or our failure to renew our CLIA certificate or any other required local, state or foreign license or accreditation, could have a material adverse effect on our business, financial condition and results of operations. In such case, even if we were able to bring our laboratory back into compliance, we could incur significant expenses and lose revenue while doing so.

In addition to CLIA requirements, we elect to participate in the accreditation program of the College of American Pathologists, or CAP. The Centers for Medicate and Medicaid Services, or CMS, has deemed CAP standards to be equally or more stringent than CLIA regulations and has approved CAP as a recognized accrediting organization. Inspection by CAP is performed in lieu of inspection by CMS for CAP-accredited laboratories. Because we are accredited by the CAP Laboratory Accreditation Program, we are deemed to also comply with CLIA. While not required to operate a CLIA-certified laboratory, many private insurers require CAP accreditation as a condition to contracting with clinical laboratories to cover their tests. In addition, some countries outside the United States require CAP accreditation as a condition to permitting clinical laboratories to test samples taken from their citizens. Failure to maintain CAP accreditation could have a material adverse effect on the sales of our tests and the results of our operations.

**We are subject to broad legal requirements regarding the information we test and analyze and any failure to comply with these requirements could result in harsh penalties, damage our reputation and materially harm our business.**

Our business is subject to federal and state laws that protect the privacy and security of personal health information, including the federal Health Insurance Portability and Accountability Act of 1986, or HIPAA, the federal Health Information Technology for Economic and Clinical Health Act, or HITECH, and similar state laws.

Numerous other federal, state and foreign laws, including consumer protection laws and regulations, govern the collection, dissemination, use, access to, confidentiality and security of patient health information. In addition, new laws and regulations that further protect the privacy and security of medical records or medical information are regularly considered by federal and state governments. Further, with the recent increase in publicity regarding data breaches resulting in improper dissemination of consumer information, federal and state governments have passed or are considering laws regulating the actions that a business must take if it experiences a data breach, such as prompt disclosure to affected customers. The Federal Trade Commission and states' Attorneys General have also brought enforcement actions and prosecuted some data breach cases as unfair and/or deceptive acts or practices under the Federal Trade Commission Act. In addition to data breach notification laws, some states have enacted statutes and rules requiring businesses to reasonably protect certain types of personal information they hold or to otherwise comply with certain specified data security requirements for personal information. We intend to continue to comprehensively protect all personal information and to comply with all applicable laws regarding the protection of such information.

Any failure to implement appropriate security measures to protect the confidentiality and integrity of personal information or any breach or other failure of these systems resulting in the unauthorized access, manipulation, disclosure or loss of this information could result in our noncompliance with these laws. Penalties for failure to comply with a requirement of HIPAA and HITECH vary significantly depending on the failure and could include civil monetary or criminal penalties.

In addition, the interpretation, application and interplay of consumer and health-related data protection laws in the United States, Europe and elsewhere are often uncertain, contradictory and in flux. As a result, it is possible that laws may be interpreted and applied in a manner that is inconsistent with our current practices. Moreover, these laws and their interpretations are constantly evolving and they may become more stringent over time. Complying with these laws or any new laws or interpretations of their application could involve significant time and substantial costs or require us to change our business practices and compliance procedures in a manner adverse to our business. We may not be able to obtain or maintain compliance with the diverse privacy and security requirements in all of the jurisdictions in which we currently or plan to do business, and failure to comply with any of these requirements could result in civil or criminal penalties, harm our reputation and materially adversely affect our business.

**We conduct business in a heavily regulated industry. Complying with the numerous statutes and regulations pertaining to our business is expensive and time-consuming, and any failure by us, our consultants or commercial partners to comply could result in substantial penalties.**

Our industry is heavily regulated, and the regulatory environment in which we operate could change significantly and adversely in the future. Our operations are subject to extensive federal, state, local and foreign laws and regulations, all of which are subject to change. These laws and regulations currently include, among others:

- the FDA's enforcement discretion with respect to LDTs;
- CLIA's and CAP's regulation of our laboratory activities;
- federal and state laws and standards affecting reimbursement by government payors, including certain coding requirements to obtain reimbursement and certain changes to the payment mechanism for clinical laboratory services resulting from the Protecting Access to Medicare Act of 2014, or PAMA;
- HIPAA and HITECH, which establish comprehensive federal standards with respect to the privacy and security of PHI, and requirements for the use of certain standardized electronic transactions with respect to transmission of such information;
- state laws governing the maintenance of personally identifiable information of state residents, including medical information, and which impose varying breach notification requirements, some of which allow private rights of action by individuals for violations and also impose penalties for such violations;
- the federal Anti-Kickback Statute, which generally prohibits knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, in return for or to induce a person to refer to an individual any good, facility, item or service that is reimbursable under a federal healthcare program;

- the federal Stark Law, which generally prohibits a physician from making a referral for certain designated health services covered by the Medicare program, including laboratory and pathology services, if the physician or an immediate family member has a financial relationship with the entity providing the designated health services;
- the federal false claims laws, which generally impose liability on any person or entity that, among other things, knowingly presents, or causes to be presented, a false or fraudulent claim for payment to the federal government;
- the federal Civil Monetary Penalties Law, which generally prohibits, among other things, the offering or transfer of remuneration to a Medicare or state healthcare program beneficiary if it is likely to influence the beneficiary's selection of a particular provider, practitioner or supplier of services reimbursable by Medicare or a state healthcare program;
- the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act, collectively referred to as the Affordable Care Act, which, among other things, establishes a requirement for providers and suppliers to report and return any overpayments received from government payors under the Medicare and Medicaid programs;
- other federal and state fraud and abuse laws, such as anti-kickback laws, prohibitions on self-referral, fee-splitting restrictions, insurance fraud laws, anti-markup laws, prohibitions on the provision of tests at no or discounted cost to induce physician or patient adoption and false claims acts, some of which may extend to services reimbursable by any third-party payor, including private insurers;
- the federal Physician Sunshine Payment Act and various state laws on reporting relationships with healthcare providers and customers, which could be determined to apply to our LDTs;
- the prohibition on reassignment of Medicare claims;
- state laws that prohibit other specified practices, such as billing physicians for tests that they order, waiving coinsurance, copayments, deductibles and other amounts owed by patients, business corporations practicing medicine or employing or engaging physicians to practice medicine and billing a state Medicaid program at a price that is higher than what is charged to one or more other payors;
- the federal Foreign Corrupt Practices Act, or FCPA, and applicable foreign anti-bribery laws;
- federal, state and local regulations relating to the handling and disposal of regulated medical waste, hazardous waste and biohazardous waste and workplace safety for healthcare employees; and
- similar foreign laws and regulations that apply to us in the countries in which we operate or may operate in the future.

The growth of our business generally and our intent to grow our international business, as well as our use of consultants and commercial partners may increase the potential of violating these laws. Our risk of violating these or other laws and regulations is further increased because of the lack of their complete interpretation by applicable regulatory authorities or the courts, and their provisions are thus open to a variety of interpretations.

We have adopted policies and procedures designed to comply with these laws and regulations and, in the ordinary course of our business, we conduct internal reviews of our compliance with these laws. Our compliance is also subject to review by applicable government agencies. It is not always possible to identify and deter misconduct by employees, distributors, consultants and commercial partners, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from government investigations or other actions or lawsuits stemming from a failure to comply with applicable laws or regulations. Additionally, we are subject to the risk that a person or government could allege such fraud or other misconduct, even if none occurred. Any action brought against us for violation of these or other laws or regulations, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business and harm our reputation. If our operations, including the conduct of our employees, distributors, consultants and commercial partners, are found to be in violation of any of these laws and regulations, we may be subject to applicable penalties associated with the violation, including administrative, civil and criminal penalties, damages, fines, individual imprisonment, exclusion from participation in federal healthcare programs, refunding of payments received by us and curtailment or cessation of our operations. Any of these consequences could seriously harm our business and our financial results.

**Healthcare policy changes, including recently enacted and proposed new legislation reforming the U.S. healthcare system, could cause significant harm to our business, operations and financial condition.**

The Affordable Care Act made a number of substantial changes to the way healthcare is financed both by governmental and private insurers. For example, the Affordable Care Act requires each medical device manufacturer to pay a sales tax on the medical devices it sells. It is unclear at this time when, or if, sales of our LDTs will trigger the medical device tax if the FDA ends its policy of

general enforcement discretion and regulates certain LDTs as medical devices, and it is possible that this tax will apply to some or all of our existing tests or tests we may develop in the future. Additionally, the Affordable Care Act introduces mechanisms to reduce the per capita rate of growth in Medicare spending if expenditures exceed certain targets. Any such reductions could affect reimbursement payments for our tests. The Affordable Care Act also contains a number of other provisions, including provisions governing enrollment in federal and state healthcare programs, reimbursement matters and fraud and abuse, which we expect will impact our industry and our operations in ways that we cannot currently predict.

In April 2014, Congress passed PAMA, which included substantial changes to the way in which clinical laboratory services will be paid under Medicare. Under PAMA, certain clinical laboratories are required to periodically report to CMS private payor payment rates and volumes for their tests. Laboratories that fail to report the required payment information may be subject to substantial civil monetary penalties. As required under PAMA, CMS will use the rates and volumes reported by laboratories to develop Medicare payment rates for laboratory tests equal to the volume-weighted median of the private payor payment rates for the tests. The impact of this new payment system on rates for our tests, including any current or future tests we may develop, is uncertain.

We cannot predict whether or when these or other recently enacted healthcare initiatives will be implemented at the federal or state level or how any such legislation or regulation may affect us. For instance, the payment reductions imposed by the Affordable Care Act and the changes to reimbursement amounts paid by Medicare for tests such as ours based on the procedure set forth in PAMA, could limit the prices we will be able to charge or the amount of available reimbursement for our tests, which would reduce our revenue. Additionally, these healthcare policy changes could be amended or additional healthcare initiatives could be implemented in the future. For instance, there is uncertainty regarding the continued effect or the Affordable Care Act in its current form following the results of the 2016 U.S. presidential election and in light of the policies of the current administration, which has threatened to repeal, replace or change the Affordable Care Act. Further, the impact on our business of the expansion of the federal and state governments' role in the U.S. healthcare industry generally, including the social, governmental and other pressures to reduce healthcare costs while expanding individual benefits, is uncertain. Any future changes or initiatives could have a materially adverse effect on our business, financial condition, results of operations and cash flows.

**If we use hazardous materials in a manner that causes contamination or injury, we could be liable for resulting damages.**

Our activities require the use of regulated medical waste, hazardous waste and biohazardous waste, including chemicals, biological agents and compounds, blood and other tissue specimens. We cannot eliminate the risk of accidental contamination or injury to employees or third parties from the use, storage, handling or disposal of these materials. In the event of contamination or injury, we could be held liable for any resulting damages, and any liability could exceed our resources or any applicable insurance coverage we may have secured. Additionally, we are subject on an ongoing basis to federal, state and local laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. Although we typically use outside vendors to dispose of such waste that are licensed or otherwise qualified to handle and dispose of the waste, applicable laws and regulations may hold us liable for damages and fines as a result of others' actions should contamination of the environment or individual exposure to hazardous substances occur. The cost of compliance with these laws and regulations could become significant and our failure to comply could result in substantial fines or other consequences, any of which could negatively affect our operating results and significantly harm our reputation.

**We could be adversely affected by violations of the FCPA and other anti-bribery laws.**

Our international operations are subject to various anti-bribery laws, including the FCPA and similar anti-bribery laws in the non-U.S. jurisdictions in which we operate. The FCPA prohibits companies and their intermediaries from offering, making, or authorizing improper payments to non-U.S. or foreign officials for the purpose of obtaining or retaining business or securing any other improper advantage. These laws are complex and far-reaching in nature, and we may be required in the future to alter one or more of our practices to be in compliance with these laws or any changes to these laws or their interpretation.

We currently engage in significant business outside the United States, and we plan to increase our international operations in the future. These operations could involve dealings with governments, foreign officials and state-owned entities, such as government hospitals, outside the United States. In addition, we may engage distributors, other commercial partners or third-party intermediaries, such as representatives or contractors, or establish joint ventures or other arrangements to manage or assist with promotion and sale of our tests abroad and obtaining necessary permits, licenses and other regulatory approvals. Any such third parties could be deemed to be our agents and we could be held responsible for any corrupt or other illegal activities of our employees or these third parties, even if we do not explicitly authorize or have actual knowledge of such activities. We have instituted policies, procedures, and internal controls reasonably designed to promote compliance with the FCPA and other anti-corruption laws and we exercise a high degree of vigilance in maintaining, implementing and enforcing these policies and controls. However, these policies and controls could be circumvented or ignored and they cannot guarantee compliance with these laws and regulations. Any violations of these laws or allegations of such violations could disrupt our operations, involve significant management distraction, involve significant costs and

expenses, including legal fees, and harm our reputation. Additionally, other U.S. companies in the medical device and pharmaceutical fields have faced substantial fines and criminal penalties in the recent past for violating the FCPA, and we could also incur these types of penalties, including criminal and civil penalties, disgorgement, and other remedial measures, if we violate the FCPA or other applicable anti-bribery laws. Any of these outcomes could result in a material adverse effect on our business, prospects, financial condition, or results of operations.

**Our services present the potential for embezzlement, identity theft or other similar illegal behavior by our employees, consultants or commercial partners.**

Our operations involve the use and disclosure of personal and business information that could be used to impersonate third parties or otherwise gain access to their data or funds. If any of our employees, consultants or commercial partners takes, converts or misuses such funds, documents or data, we could be liable for damages, and our business reputation could be damaged or destroyed.

## Intellectual Property Risks

**We currently own no patents or patent applications related to our technology platform and rely upon trade secret protection, non-disclosure agreements and invention assignment agreements to protect our proprietary information, which may not be effective to protect our proprietary technologies and other information.**

We currently rely upon trade secret protection, non-disclosure agreements and invention assignment agreements with our employees, consultants and third-parties to protect our confidential and proprietary information. Although our competitors have utilized and are expected to continue to utilize similar methods and have aggregated and are expected to continue to aggregate similar libraries of genetic testing information, our success will depend upon our ability to develop proprietary methods and libraries and to defend any advantages afforded to us by such methods and libraries relative to our competitors. If we do not protect our intellectual property adequately, competitors may be able to use our proprietary technologies and information and thereby erode any competitive advantages they provide us.

We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary technologies are effectively maintained as trade secrets. We expect to rely primarily upon trade secret and proprietary know-how protection for our confidential and proprietary information and we have taken security measures to protect this information. These measures, however, may not provide adequate protection for our trade secrets, know-how or other confidential information. Among other things, we seek to protect our trade secrets and other confidential information by entering into confidentiality agreements with employees, consultants and other third parties. These confidentiality agreements may not sufficiently safeguard our trade secrets and confidential information and may not provide adequate remedies in the event of unauthorized use or disclosure of such information. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret can be difficult, expensive and time-consuming and the outcome could be unpredictable. In addition, trade secrets or other confidential information could otherwise become known or be independently developed by others in a manner that could prevent legal recourse by us. If any of our trade secrets or other confidential or proprietary information were to be disclosed or misappropriated or if any such information was independently developed by a competitor, our competitive position could be harmed and our business could suffer.

**Litigation or other proceedings or third-party claims of intellectual property infringement or misappropriation could require us to spend significant time and money and could prevent us from selling our tests.**

Our commercial success will depend in part upon our ability to avoid infringement of patents and other proprietary rights owned by third parties, including the intellectual property rights of competitors. There are numerous U.S. and foreign patents and pending patent applications and other intellectual property rights that cover technologies relevant to genetic testing and that are owned by third parties. We may be unaware of patents or other intellectual property rights that a third-party might assert are infringed by our business and there may be patent applications that, if issued, could be asserted against us. As a result, our existing or future operations may be found or alleged to infringe existing or future patents or other intellectual property rights of others. As we continue to sell our existing tests, launch new tests and enter new markets, competitors may claim that our tests infringe or misappropriate their intellectual property rights as part of strategies designed to impede our successful entry into new markets.

If a patent infringement or misappropriation of intellectual property suit were brought against us, we could be forced to discontinue or delay our development or sales of any tests or other activities that are the subject of the suit while it is pending. Additionally, defense of these claims, regardless of merit, could cause us to incur substantial expenses, be a substantial diversion of our management and other employee resources and significantly harm our reputation. In the event of a successful claim of infringement against us, we may be forced to pay substantial damages, including treble damages and attorneys' fees if we are found to have willfully infringed patents, obtain one or more licenses, which may not be available when needed, on commercially reasonable

terms or at all, pay royalties, which may be substantial, or redesign any infringing tests or other activities, which may be impossible or require substantial time and monetary expenditure. Further, third parties making claims against us for infringement or misappropriation of their patents or other intellectual property rights could seek and obtain injunctive or other equitable relief, which, if granted, could prohibit us from performing our tests. Any of these outcomes could delay our introduction of new tests, significantly increase our costs or prevent us from conducting certain of our essential activities, which could materially adversely affect our ability to operate and grow our business.

**Developments in patent law could have a negative impact on our business.**

From time to time, the U.S. Supreme Court, other federal courts, the U.S. Congress or the U.S. Patent and Trademark Office, or USPTO, may change the standards of patentability, and any such changes could have a negative impact on our business.

Three cases involving diagnostic method claims and "gene patents" have recently been decided by the Supreme Court. In March 2012, the Supreme Court issued a decision in *Mayo Collaborative v. Prometheus Laboratories*, or Prometheus, a case involving patent claims directed to optimizing the amount of drug administered to a specific patient, holding that the applicable patents' claims failed to incorporate sufficient inventive content above and beyond mere underlying natural correlations to allow the claimed processes to qualify as patent-eligible processes that apply natural laws. In June 2013, the Supreme Court decided *Association for Molecular Pathology v. Myriad Genetics*, or Myriad, a case challenging the validity of patent claims relating to the breast cancer susceptibility genes BRCA1 and BRCA2, holding that isolated genomic DNA that exists in nature, such as the DNA constituting the BRCA1 and BRCA2 genes, is not patentable subject matter, but that cDNA, which is an artificial construct created from RNA transcripts of genes, may be patent eligible. In June 2014, the Supreme Court decided *Alice Corporation Pty. Ltd. v. CLS Bank International*, or Alice, which affirmed the Prometheus and Myriad decisions and provided additional interpretation.

If we make efforts to seek patent protection for our technology and tests, these efforts may be negatively impacted by the Prometheus, Myriad and Alice decisions, rulings in other cases or guidance or procedures issued by the USPTO. However, we cannot fully predict the impact of the Prometheus, Myriad and Alice decisions on the ability of genetic testing, biopharmaceutical or other companies to obtain or enforce patents relating to DNA, genes or genomic-related discoveries in the future, as the contours of when claims reciting laws of nature, natural phenomena or abstract ideas may meet patent eligibility requirements are not clear and may take years to develop via interpretation at the USPTO and in the courts. There are many previously issued patents claiming nucleic acids and diagnostic methods based on natural correlations that issued before these recent Supreme Court decisions and, although many of these patents may be invalid under the standards set forth in these decisions, these patents are presumed valid and enforceable until they are successfully challenged, and third parties holding these patents could allege that we infringe or request that we obtain a license under these patents. Whether based on patents issued prior to or after these Supreme Court decisions, we could be forced to defend against claims of patent infringement or obtain license rights, if available, under these patents. In particular, although the Supreme Court has held in Myriad that isolated genomic DNA is not patent-eligible subject matter, third parties could allege that our activities infringe other classes of gene-related patent claims. There are numerous risks associated with any patent infringement claim against us, which are discussed above under "—Litigation or other proceedings or third-party claims of intellectual property infringement or misappropriation could require us to spend significant time and money and could prevent us from selling our tests."

In addition, the Leahy-Smith America Invents Act, or America Invents Act, which was signed into law in 2011, includes a number of significant changes to U.S. patent law. These changes include a transition from a "first-to-invent" system to a "first-to-file" system, changes to the way issued patents are challenged and changes to the way patent applications are disputed during the examination process. These changes may favor larger and more established companies that have greater resources to devote to patent application filing and prosecution. The USPTO has developed new regulations and procedures to govern the full implementation of the America Invents Act, but the impact of the America Invents Act on the cost of prosecuting any patent applications we may file, our ability to obtain patents based on our discoveries if we pursue them and our ability to enforce or defend any patents that may issue remains unclear.

These and other substantive changes to U.S. patent law could affect our susceptibility to patent infringement claims and our ability to obtain any patents we may pursue and, if obtained, to enforce or defend them, any of which could have a material adverse effect on our business.

**We may not be able to enforce our intellectual property rights outside the United States.**

The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States and many companies have encountered significant challenges in establishing and enforcing their proprietary rights outside the United States. These challenges can be caused by the absence of rules and methods for the establishment and enforcement of intellectual property rights in certain jurisdictions. In addition, the legal systems of some countries, particularly developing countries, do not favor the enforcement of certain intellectual property protection, especially relating to healthcare. These aspects of many foreign legal

systems could make it difficult for us to stop the misappropriation of our intellectual property rights. Moreover, changes in the law and legal decisions by courts in foreign countries could affect our ability to obtain adequate protection for our technology and the enforcement of intellectual property rights. As a result, our efforts to protect and enforce our intellectual property rights in foreign countries may ultimately prove to be inadequate, in which case our ability to grow our business and our revenue and prospects could be materially harmed.

**Third parties may assert that our employees or consultants have wrongfully used or disclosed confidential information or misappropriated trade secrets.**

We employ individuals who were previously employed at universities, biometric solution or genetic testing, diagnostic or other healthcare companies, including our competitors or potential competitors. Although we try to ensure that our employees and consultants do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or our employees or consultants have inadvertently or otherwise used or disclosed intellectual property, including trade secrets or other proprietary information, of a former employer or other third-party. Further, we may become subject to ownership disputes in the future arising from, for example, conflicting obligations of consultants or others who are involved in developing our technology and other parties' intellectual property. Litigation may be necessary to defend against these claims. If we fail in defending any such claims, we could be subject to monetary damages and the loss of valuable intellectual property rights or personnel. Even if we are successful in defending against any such claims, litigation could result in substantial costs, distract management and other employees and damage our reputation.

## Public Company Risks

**We will incur increased costs and demands as a result of compliance with laws and regulations applicable to public companies.**

As a public company, we will experience significant additional demands that we did not experience as a private company. For example, the Sarbanes-Oxley Act of 2002, as amended, or Sarbanes-Oxley Act, and related and other rules implemented by the SEC and The NASDAQ Stock Market LLC, or NASDAQ, impose a number of requirements on public companies, including with respect to corporate governance practices, that are not applicable to private companies. For instance, as a result of becoming a public company, a majority of our directors are required to be independent and we are required to maintain audit and compensation committees comprised solely of independent directors, maintain a variety of corporate governance policies, adopt and maintain policies regarding internal controls and disclosure controls and procedures and prepare reports on internal controls over financial reporting. Until completion of our reorganization from a limited liability company to a corporation, we operated without a board of directors under the direction of the Manager of our predecessor Fulgent LLC, Mr. Hsieh. Further, the SEC and other regulators have continued to adopt new rules and regulations and make additional changes to existing regulations that require our compliance, including pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, which was enacted in July 2010. There are significant corporate governance and executive compensation-related disclosure provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas.

Moreover, compliance with the rules and regulations applicable to public companies has increased and will continue to increase our legal, accounting and financial compliance costs. For instance, we will need to hire additional personnel for, and devote more resources to, our financial reporting function. Additionally, if we continue to grow as anticipated, we will need to implement new and more sophisticated financial and accounting systems and adopt additional procedures for financial reporting in order to meet our obligations as a public company. Any transition of accounting systems can be expensive and can result in delays in our ability to process and report transactions in a timely manner. Our management and other personnel will need to devote a substantial amount of attention to maintaining our compliance with these obligations, which could be time-consuming and expensive. If these requirements divert the attention of our management and personnel from other aspects of our business or if they require substantial costs that we cannot afford, they could have a material adverse effect on our business, financial condition and results of operations. We also expect that, as a public company, it will be more expensive for us to attract and compensate qualified directors and officers and obtain adequate director and officer liability insurance.

**If we are unable to maintain effective internal control over financial reporting, investors could lose confidence in the accuracy and completeness of our reported financial information and the market price of our common stock could decline.**

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with our annual report for the year ending December 31, 2017, provide a management report on our internal control over financial reporting. If we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. Although we have started to implement the systems and processes necessary to perform the evaluation needed to comply with Section 404 of the

Sarbanes-Oxley Act, additional work remains to establish adequate systems, processes and controls. Further, once established, we will need to maintain and enhance these systems, processes and controls as we grow and we may need to hire additional personnel and devote more resources to our financial reporting function in order to do so.

During the process of evaluating our internal controls, if we identify one or more material weaknesses, our management will be unable to conclude that our internal control over financial reporting is effective. Moreover, when we are no longer an emerging growth company, our independent registered public accounting firm will be required to issue an attestation report on the effectiveness of our internal control over financial reporting. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses with respect to our internal controls or the level at which our internal controls are documented, designed, implemented or reviewed.

If we are unable to conclude that our internal control over financial reporting is effective or, when we are no longer an emerging growth company, our auditors were to express an adverse opinion on the effectiveness of our internal control over financial reporting because one or more material weaknesses had been identified or if internal control deficiencies result in the restatement of our financial results, investors could lose confidence in the accuracy and completeness of our financial disclosures and the price of our common stock could decline.

**Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.**

As a result of becoming a public company, we are now subject to the periodic reporting and other requirements of the Exchange Act. As a result, we have implemented disclosure controls and procedures designed to provide reasonable assurance that information we must disclose in reports we file or submit under the Exchange Act is accumulated and communicated to management and recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. However, any disclosure controls and procedures, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. As a result, because of these inherent limitations in our control system, misstatements or omissions due to error or fraud may occur and may not be detected, which could result in failures to file required reports in a timely manner and filing reports containing incorrect information. Any of these outcomes could result in SEC enforcement actions, monetary fines or other penalties, damage to our reputation and harm to our financial condition.

**We are an emerging growth company and may elect to comply with reduced public company reporting requirements available to emerging growth companies, which could make our common stock less attractive to investors.**

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012, as amended, or JOBS Act. We will remain an emerging growth company until December 31, 2021, unless our gross revenue exceeds $1.07 billion in any fiscal year before that date, we issue more than $1.0 billion of non-convertible debt in any three-year period before that date or the market value of our common stock held by non-affiliates exceeds $700 million as of the last business day of the second fiscal quarter of any fiscal year before that date. As an emerging growth company, we are eligible for certain exemptions from various reporting requirements applicable to certain other public companies, including an exemption from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced financial statement and other financial disclosure requirements in registration statements we file, reduced disclosure obligations regarding executive compensation and exemption from the requirements of holding nonbinding advisory votes on executive compensation and obtaining stockholder approval of any golden parachute payments not previously approved. Even after we no longer qualify as an emerging growth company, we may still qualify as a "smaller reporting company," which would allow us to take advantage of many of the same exemptions from disclosure requirements, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and having reduced disclosure obligations regarding executive compensation. We have relied on many of these exemptions to date and investors may find our common stock less attractive if we choose to continue to rely on any of these exemptions, in which case there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the Securities Act of 1933, as amended, or Securities Act, emerging growth companies can elect to delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption and, as a result, we will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

## Common Stock Risks

**An active, liquid trading market for our common stock may never develop, which could make it difficult for you to sell your shares of our common stock.**

Prior to the completion of our initial public offering on October 4, 2016, no public market for shares of our common stock existed. An active trading market for our shares may never develop or, if developed, may not be sustained. Further, as of August 1, 2017, Mr. Hsieh, our founder and Chief Executive Officer, beneficially owned approximately 44.0% of our outstanding voting equity. As a result, fewer shares are actively traded in the public market, which reduces the liquidity of the market for our common stock. The lack of an active trading market could impair your ability to sell your shares at the time you wish to sell them or at a price you consider reasonable. Further, an inactive trading market may impair our ability to raise capital in the future by selling shares of our common stock and may impair our ability to enter into strategic relationships or acquire companies or technologies using shares of our common stock as consideration.

Our common stock is listed on the NASDAQ Global Market under the symbol "FLGT." If we fail to satisfy the continued listing standards of NASDAQ, however, we could be de-listed, which would negatively impact the price of our common stock.

**The price of our common stock may be volatile and you could lose all or part of your investment.**

The trading price of our common stock has experienced, and may continue to experience, wide fluctuations and significant volatility. This volatility may be exacerbated by the relatively small and illiquid market for our shares since the completion of our initial public offering on October 4, 2016. Other factors that may contribute to this volatility may include, among others:

- actual or anticipated fluctuations in our operating results;
- competition from existing tests or new tests that may emerge;
- announcements by us or our competitors of significant acquisitions, investments, strategic relationships, joint ventures, collaborations or capital commitments;
- failure to meet or exceed financial estimates and projections of the investment community or guidance that we provide to the public;
- issuance of new or updated research or reports by securities analysts or changed recommendations for our common stock;
- the timing and amount of our investments in the growth of our business;
- disputes or other developments with respect to our or others' intellectual property rights;
- actual or anticipated changes in laws or regulations applicable to our business or our tests;
- additions or departures of key management or other personnel;
- changes in coverage and reimbursement by current or potential payors;
- inability to obtain additional funding, as and when needed;
- product liability claims or other litigation;
- sales of our common stock by us or our stockholders;
- general economic, political, industry and market conditions, including factors not directly related to our operating performance or the operating performance of our competitors, such as increased uncertainty in the U.S. healthcare regulatory environment following the results of the 2016 U.S. presidential election; and
- the other risk factors discussed in this report.

In addition, the stock market in general, and the market for stock of companies in the life sciences and technology industries in particular, has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of specific companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against the company. This type of litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

**Our principal stockholders and management own a significant percentage of our capital stock and are able to exert significant control over matters subject to stockholder approval.**

As of August 1, 2017, our executive officers, directors, holders of 5% or more of our outstanding voting equity and their respective affiliates beneficially owned approximately 70.2% of our outstanding voting equity and Mr. Hsieh, our founder and Chief Executive Officer, beneficially owned approximately 44.0% of our outstanding voting equity. As a result, these stockholders have the ability to control matters submitted to our stockholders for approval, including elections of directors, amendments to our organizational documents or approval of any merger, sale of assets or other major corporate transaction. This concentration of ownership may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders, as the interests of these stockholders may not coincide with your interests or the interests of other stockholders and they may act in a manner that advances their best interests and not necessarily those of all stockholders. Further, this concentration of ownership could adversely affect the prevailing market price for our common stock.

**Sales of a substantial number of shares of our common stock in the public market, or the perception that such sales could occur, could cause the price of our common stock to fall.**

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that such sales are pending or could occur, could reduce the market price of our common stock. As of August 1, 2017, we had 17,740,491 outstanding shares of common stock. All of these shares are freely tradable without restriction in the public market, subject to certain volume and manner of sale limitations applicable to shares held by our "affiliates," as that term is defined in the Securities Act.

Moreover, Xi Long, which holds an aggregate of 2,025,623 shares of our common stock, has the right, subject to certain conditions, to include its shares in registration statements we may file for ourselves or other stockholders and to require us to file registration statements covering its shares following May 16, 2019. In addition, as of June 30, 2017, there were 1,035,326 shares of our common stock subject to outstanding equity-based awards and 961,076 additional shares of our common stock reserved for issuance pursuant to future such awards that we may grant under our 2016 Omnibus Incentive Plan, or the 2016 Plan. Subject to certain volume and manner of sale limitations applicable to our affiliates and any other applicable legal and contractual limitations, all of these shares are registered under the Securities Act or are otherwise eligible under applicable securities laws for free trading in the public market upon their issuance.

**Future issuances of our common stock or rights to purchase our common stock, including pursuant to our equity incentive plans, could result in additional dilution to the percentage ownership of our stockholders and could cause the price of our common stock to fall.**

To raise capital in the future, we may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities, our then-existing stockholders could be materially diluted by such issuances and new investors could gain rights, preferences and privileges senior to the holders of our common stock, which could cause the price of our common stock to decline.

**We do not intend to pay dividends on our common stock, so any returns will be limited to the value of our common stock.**

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business. As a result, we do not anticipate declaring or paying any cash dividends or other distributions for the foreseeable future. Further, if we were to enter into a credit facility or issue debt securities or preferred equity securities in the future, we may be contractually restricted from paying dividends. If we do not pay dividends, our common stock may be less valuable because stockholders must rely on sales of their common stock after price appreciation, which may never occur, to realize any future gains on their investment.

**If securities or industry analysts do not publish research or reports about our business or if they issue an adverse or misleading opinion regarding our common stock, our stock price and trading volume could decline.**

If a trading market for our common stock develops, that trading market will be influenced to some extent by the research and reports that industry or securities analysts publish about us or our business. We have only recently obtained research coverage by securities and industry analysts. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, we could lose visibility in the financial markets, which could cause the price and trading volume of our common stock to decline. Further, if any of these analysts issues an adverse or misleading opinion regarding us, our business model, our industry or our stock performance or if our operating results fail to meet analyst expectations, the price of our common stock could significantly decline.

**Provisions in our charter documents and Delaware law could discourage, delay or prevent a change in control of our company or changes in our management and depress the market price of our common stock.**

Our certificate of incorporation and bylaws contain provisions that could depress the market price of our common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions, among other things:

- authorize our board of directors to issue, without further action by our stockholders, up to 1,000,000 shares of undesignated or "blank check" preferred stock;
- prohibit stockholder action by written consent, thus requiring all stockholder actions to be taken at a duly noticed and held meeting of our stockholders;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of our board of directors or our President, thereby eliminating the ability of our stockholders to call special meetings;
- permit only the board of directors to establish the number of directors and fill vacancies on the board of directors, except as may be required by law;
- permit the board of directors to amend our bylaws, subject to the power of our stockholders to repeal any such amendment;
- do not permit cumulative voting on the election of directors; and
- establish advance notice requirements for stockholders to propose nominees for election as directors or matters to be acted upon at annual meetings of stockholders.

In addition, we are subject to Section 203 of the Delaware General Corporation Law, or DGCL, which may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations and other transactions between us and holders of 15% or more of our common stock.

**Holders of our common stock could be adversely affected if we issue preferred stock.**

Pursuant to our certificate of incorporation, our board of directors is authorized to issue up to 1,000,000 shares of preferred stock without any action on the part of our stockholders. Our board of directors will also have the power, without stockholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights, preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preferences over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock that is convertible into our common stock at greater than a one-to-one ratio, the voting and other rights of the holders of our common stock or the market price of our common stock could be adversely affected.

**Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or other employees.**

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or to our stockholders;
- any action asserting a claim against us arising pursuant to any provision of the DGCL, our certificate of incorporation or our bylaws; or
- any action asserting a claim against us governed by the internal affairs doctrine.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to this provision of our certificate of incorporation. This choice-of-forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of

actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**Use of Proceeds from Registered Securities**

On October 4, 2016, we completed the initial public offering of our common stock, or the IPO, in which we issued and sold an aggregate of 4,830,000 shares of common stock (including 630,000 shares issued and sold on October 7, 2016 pursuant to the underwriters' exercise in full of their option to purchase additional shares) at a public offering price of $9.00 per share. We received net proceeds of approximately $36.0 million, after deducting underwriting discounts and commissions and offering expenses paid or payable by us of approximately $4.4 million. The shares issued and sold in the IPO were registered under the Securities Act on a registration statement on Form S-1 (File No. 333-213469), as amended, and the final prospectus dated September 28, 2016 included in such registration statement, or the Prospectus.

We have used $2.5 million of the net proceeds from the IPO during the third quarter of 2017 to date to make contributions to our joint venture, FF Gene Biotech, in partial satisfaction of our contribution obligations under the joint venture cooperation agreement. All other net proceeds from the IPO are invested in short-term, investment-grade, interest-bearing securities, such as money market accounts, certificates of deposit, commercial paper and guaranteed obligations of the U.S. government. There has been no material change in the planned use of proceeds from the IPO from that described in the Prospectus.

**Item 6. Exhibits.**

The information required by this Item 6 is set forth on the Exhibit Index that immediately follows the signature page to this report and is incorporated herein by reference.

## 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.

**FULGENT GENETICS, INC.**

| | |
|---|---|
| Date: August 14, 2017 | By: /s/ MING HSIEH<br>Ming Hsieh<br>President, Chief Executive Officer<br>*(principal executive officer)* |
| Date: August 14, 2017 | By: /s/ PAUL KIM<br>Paul Kim<br>Chief Financial Officer<br>*(principal financial and accounting officer)* |

## EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 3.1* | Certificate of Incorporation of the registrant, dated May 13, 2016. |
| 3.1.1* | Certificate of Amendment to Certificate of Incorporation of the registrant, dated August 2, 2016. |
| 3.1.2* | Certificate of Amendment to Certificate of Incorporation of the registrant, dated May 17, 2017. |
| 10.1*† | Cooperation Agreement on the Establishment of Fujian Fujun Gene Biotech Co., Ltd., dated April 25, 2017, by and among Shenzhen Fujin Gene Science & Technology Co., Ltd., Xilong Scientific Co., Ltd. and Fuzhou Jinqiang Investment Partnership (LP). |
| 10.2*† | Technical Know-How License Agreement, dated April 25, 2017, by and between the registrant and Fujian Fulgent Gene Biotech Co., Ltd. |
| 31.1* | Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL Instance Document |
| 101.SCH* | XBRL Taxonomy Extension Schema Document |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith.

** Furnished herewith.

† Confidential treatment has been requested with respect to portions of this exhibit pursuant to Rule 24b-2 under the Exchange Act, and these confidential portions have been redacted from the version of this agreement that is filed with this report. A complete copy of this exhibit, including the redacted portions, has been separately furnished to the SEC.

**Exhibit 3.1**

# CERTIFICATE OF INCORPORATION
# OF
# FULGENT DIAGNOSTICS, INC.

## ARTICLE 1

The name of the Corporation is Fulgent Diagnostics, Inc. (the "Corporation").

## ARTICLE 2

The address of the Corporation's registered office in the State of Delaware is 850 New Burton Road, Suite 201, Dover, Delaware 19904, County of Kent. The name of its registered agent at such address is National Corporate Research, Ltd.

## ARTICLE 3

The nature of the business of the Corporation and the objects or purposes to be transacted, promoted or carried on by it are as follows: to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

## ARTICLE 4

A. The total number of shares of all classes of stock that the Corporation is authorized to issue is 201,000,000 shares, consisting of 200,000,000 shares of Common Stock, with a par value of $0.0001 per share, and 1,000,000 shares of Preferred Stock, with a par value of $0.0001 per share.

B. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of shares of stock of the Corporation representing a majority of the votes represented by all of the outstanding shares of stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

C. Any of the shares of Preferred Stock may be issued from time to time in one or more series. Subject to the limitations and restrictions in this Article 4 set forth, the Board of Directors or a committee of the Board of Directors, to the extent permitted by law and the Bylaws of the Corporation or a resolution of the Board of Directors, by resolution or resolutions, is authorized to create or provide for any such series, and to fix the designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including, without limitation, the authority to fix or alter the dividend rights, dividend rates, conversion rights, exchange rights, voting rights, rights and terms of redemption (including sinking and purchase fund provisions), the redemption price or prices, the dissolution preferences and the rights in respect to any distribution of assets of any wholly unissued series of Preferred Stock and the number of shares constituting any such series, and the designation thereof, or any of them and to increase or decrease the number of shares of any series so created, subsequent to the

issue of that series but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

D. There shall be no limitation or restriction on any variation between any of the different series of Preferred Stock as to the designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof; and the several series of Preferred Stock may, except as hereinafter in this Article 4 otherwise expressly provided, vary in any and all respects as fixed and determined by the resolution or resolutions of the Board of Directors or by a committee of the Board of Directors, providing for the issuance of the various series; *provided*, *however*, that all shares of any one series of Preferred Stock shall have the same designation, preferences and relative, participating, optional or other special rights and qualifications, limitations and restrictions.

E. Except as otherwise required by law, or as otherwise fixed by resolution or resolutions of the Board of Directors with respect to one or more series of Preferred Stock, the entire voting power and all voting rights shall be vested exclusively in the Common Stock, and each stockholder of the Corporation who at the time possesses voting power for any purpose shall be entitled to one (1) vote for each share of such stock standing in his name on the books of the Corporation.

**ARTICLE 5**

A. The Board of Directors is expressly authorized to adopt, amend and repeal the Bylaws of the Corporation.

B. The stockholders are expressly authorized to adopt, amend and repeal the Bylaws of the Corporation, by the affirmative vote of a majority of the outstanding shares entitled to vote thereon.

**ARTICLE 6**

A. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

B. The number of directors which shall constitute the Board of Directors shall be fixed exclusively by resolutions adopted by the Board of Directors.

C. Except as otherwise required by law and subject to the rights of the holders of any series of stock with respect to such series of stock, unless the Board of Directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board of Directors resulting from the death, resignation, retirement, disqualification, removal from office or other cause shall be filled only by a majority vote of the directors then in office, though less than a quorum, or by a sole remaining director, and not by the stockholders.

## ARTICLE 7

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of Delaware General Corporation Law or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of Delaware General Corporation Law order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of the Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

## ARTICLE 8

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

## ARTICLE 9

To the fullest extent permitted by Delaware statutory or decisional law, as amended or interpreted, no director of this Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. To the fullest extent permitted by applicable law, the Corporation is required to provide indemnification of (and advancement of expenses to) directors, officers and agents of the Corporation (and any other persons to which applicable law permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise in excess of the indemnification and advancement otherwise permitted by such applicable law. If applicable law is amended after approval by the stockholders of this Article 9 to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director to the Corporation shall be eliminated or limited to the fullest extent permitted by applicable law as so amended. No amendment to, or modification or repeal of, this Article 9 shall adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such amendment, modification or repeal. This Article 9 does not affect the availability of equitable remedies for breach of fiduciary duties.

## ARTICLE 10

Except as otherwise provided for or fixed by or pursuant to the provisions of this Certificate of Incorporation or any resolution or resolutions of the Board of Directors providing for the issuance of any series of stock having a preference over the Common Stock, no action shall be taken by the stockholders except at an annual or special meeting of stockholders called in accordance with the Bylaws of the Corporation, and no action shall be taken by the stockholders by written consent.

## ARTICLE 11

Except for (i) actions in which the Court of Chancery in the State of Delaware concludes that an indispensable party is not subject to the jurisdiction of the Delaware courts, and (ii) actions in which a federal court has assumed exclusive jurisdiction of a proceeding, any derivative action brought by or on behalf of the Corporation, and any direct action brought by a stockholder against the Corporation or any of its directors, officers or other employees, alleging a violation of the Delaware General Corporation Law, the Corporation's Certificate of Incorporation or Bylaws or breach of fiduciary duties or other violation of Delaware decisional law relating to the internal affairs of the Corporation, shall be brought in the Court of Chancery in the State of Delaware, which shall be the sole and exclusive forum for such proceedings; provided, however, that the Corporation may consent to an alternative forum for any such proceedings upon the approval of the Board of Directors of the Corporation.

## ARTICLE 12

The name and mailing address of the sole incorporator is as follows:

| Name | Mailing Address |
| --- | --- |
| Paul Kim | 4978 Santa Anita Avenue, Suite 205<br>Temple City, CA 91780 |

I, the undersigned, being the sole incorporator hereinbefore named, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and, accordingly, have hereunto set my hands this 13th day of May, 2016.

*/s/ Paul Kim*
Paul Kim, Sole Incorporator

**Exhibit 3.1.1**

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
FULGENT DIAGNOSTICS, INC.

The undersigned, Ming Hsieh, hereby certifies that:

1. He is the President of Fulgent Diagnostics, Inc., a Delaware corporation (the "Corporation").

2. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on May 13, 2016.

3. Article 1 of the Certificate of Incorporation of the Corporation is amended and restated to read in its entirety as follows:

The name of the corporation is Fulgent Genetics, Inc. (the "Corporation").

4. This Certificate of Amendment has been duly adopted by the Board of Directors of this Corporation in accordance with Sections 242 and 141 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment of Certificate of Incorporation on August 2, 2016.

/s/ Ming Hsieh
Ming Hsieh, President

**Exhibit 3.1.2**

**CERTIFICATE OF AMENDMENT**
**TO THE**
**CERTIFICATE OF INCORPORATION**
**OF**
**FULGENT GENETICS, INC.**

Fulgent Genetics, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on May 13, 2016.

2. Section A of Article 4 of the Certificate of Incorporation of the Corporation is amended and restated to read in its entirety to read as follows:

    A. The total number of shares of all classes of stock that the Corporation is authorized to issue is 51,000,000 shares, consisting of 50,000,000 shares of Common Stock, with a par value of $0.0001 per share, and 1,000,000 shares of Preferred Stock, with a par value of $0.0001 per share.

3. This Certificate of Amendment to the Certificate of Incorporation has been duly approved by the Board of Directors and the stockholders of this Corporation in accordance with Sections 141 and 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to the Certificate of Incorporation to be executed on May 17, 2017.

**FULGENT GENETICS, INC.**

| | |
|---|---|
| By: | */s/ Ming Hsieh* |
| Name: | Ming Hsieh |
| Title: | President, Chief Executive Officer |

Exhibit 10.1

# Cooperation Agreement

## on the Establishment of Fujian Fujun Gene Biotech Co., Ltd.

## among

## Shenzhen Fujin Gene Science & Technology Co., Ltd.

## Xilong Scientific Co., Ltd.

## and

## Fuzhou Jinqiang Investment Partnership (LP)

BEIJINGSHANGHAISHENZHEN HANGZHOU GUANGZHOU KUNMINTG TIANJIN CHENGDUNINGBOFUZHOUXI’AN NANJING NANNINGJINAN CHONGQING SUZHOU HONG KONG PARIS MADIDRID SILICON VALLEY

# Table of Contents


Chapter I General Provisions 1
Chapter II Basic Information on the Parties 1
Chapter III Investment and Registered Capital 3
Chapter IV Business Scope and Development of the Company 4
Chapter V Business Place 5
Chapter VI Responsibilities of the Parties 5
Chapter VII Transfer of Technologies and Confidentiality 6
Chapter VIII Management of Technical Achievements, Know-how and Patents 7
Chapter IX Restrictions 7
Chapter X Shareholders’ Meeting 8
Chapter XI Board of Directors 9
Chapter XII Management Body 10
Chapter XIII Labor Management 12
Chapter XIV Finance and Profit Distribution 12
Chapter XV Insurance 14
Chapter XVI Force Majeure 14
Chapter XVII Dissolution and Liquidation 15
Chapter XVIII Settlement of Disputes 18
Chapter XIX Mailing Addresses and Notices 18
Chapter XX Effectiveness and Miscellaneous 19


---

# Chapter I General Provisions

Shenzhen Fujin Gene Science & Technology (hereinafter referred to as "**Party A**"), Xilong Scientific Co., Ltd. (hereinafter referred to as "**Party B**") and Fuzhou Jinqiang Investment Partnership (LP) (hereinafter referred to as "**Party C**") have reached an unanimous agreement to establish Fujian Fujun Gene Biotech Co., Ltd. (□□□□□□□□□□□□□□) (hereinafter referred to as "Project Company" or "Fujun Biotech") by way of cash contribution through negotiations in good faith in accordance with the provisions of the Company Law of the People's Republic of China, the Contract Law of the People's Republic of China and other laws and regulations of China (hereinafter referred to as the "Laws"), and to operate and manage the Project Company jointly.

# Chapter II Basic Information on the Parties

**Article I** Legal addresses, legal representatives and Uniform Social Credit Code of the Parties:

**Party A: Shenzhen Fujin Gene Science and Technology Co., Ltd. ("Shenzhen Fujin")**

Legal Address: Room 201, Block A, Comprehensive Office Building of Authority of Qianhai Shenzhen-Hongkong Modern Service Industry Cooperation Zone, No. 1 Liyumen Street, Qianwan 1st Road, Qianhai Shenzhen-Hongkong Cooperation Zone, Shenzhen

Legal Representative: Gao Hanlin

Uniform Social Code: [*****]

**Party B: Xilong Scientific Co., Ltd. (Xilong Scientific)**

Legal Address: Nos. 1-3 Xilong Middle Street, Chaoshan Road, Shantou City

Legal Representative: Huang Weipeng

Uniform Social Credit Code: [*****]

**Party C: Fuzhou Jinqiang Investment Partnership (LP) (Fujian Dingshi)**

Legal Address: No. 4F01A, 10# Plant Building, Zone C, No. 9 Maoling Road, Xindian Town, Jin'an District, Fuzhou City, Fujian Province

Executive Partner: Wei Xianshu

Uniform Social Credit Code: [*****]

**Article II** The name of the Project Company is: Fujian Fujun Gene Biotech Co., Ltd. (□□□□□□□□□□□□□□).

The legal address of the Project Company is: No. 4F01B, 10# Plant Building, Zone C, No. 9 Maoling Road, Xindian Town, Jin'an District, Fuzhou City, Fujian Province

The business place of the Project Company is: No. 4F01B, 10# Plant Building, Zone C, No. 9 Maoling Road, Xindian Town, Jin'an District, Fuzhou City, Fujian Province

**Article III** The purpose of the Project Company is to promote and operate the gene test and diagnosis business within the territory of the People's Republic of China (excluding Hong Kong, Macau and Taiwan, hereinafter referred to "Mainland China") by taking the advantage of resources such as technology, personnel, operation and management, market and capital so as to build the Project Company into a famous gene test and diagnosis enterprise with high sustainability and market competitiveness and to provide investors with returns and profits.

**Article IV** The Project Company is an independent legal entity. The Project Company will have all legal person property rights formed by the investment by shareholders, enjoy civil rights, and bear the civil responsibilities according to law. The Project Company will operate its business with all its properties, and be responsible for its own profits and losses.

The Project Company must abide by the provisions of all laws, regulations and rules of the country, and be protected by the Laws. The Company shall also comply with all provisions of the Agreement and its articles of association.

**Article V** The Project Company is organized as a limited liability company. The Parties will bears the responsibility to the Project Company within the limit of the amount of investment made by them. The profits, risks and losses of the Project Company shall be shared by the parties in proportion to their contributions of the registered capital.

**Article VI** The business term of the Project Company is 20 year. The date of establishment is the date on which the business license is issued. The business term of the Project Company may be extended after approved by the competent administration for industry and commerce if agreed unanimously by the Parties. The Parties shall reach an agreement on the extension of the business term of the Project Company no less than six months prior to the expiry of the business term."

**Article VII** The execution, effectiveness, interpretation and performance of the Agreement and the settlement of disputes shall be governed by the Laws of the People's Republic of China.

## Chapter III Investments and Registered Capital

**Article VIII** The registered capital of the Project Company is RMB 100 million yuan only (RMB 100,000,000.00).

**Article IX** The Parties agree that Party A will subscribe for the registered capital of the Project Company by making capital contributions in cash or in kind, Party B and Party C will subscribe for the registered capital of the Project Company by making capital contributions in cash. The total amount of capital contributions, registered capital subscribed for and shareholding percentages are shown as follows:

| Name of Shareholders | Amount of Capital Contribution | Registered Capital Subscribed for | Shareholding Percentage |
|---|---|---|---|
| Shenzhen Fujin (Party A) | 60,000,000.00 | 30,000,000.00 | 30% |
| Xilong Scientific (Party C) | 102,000,000.00 | 51,000,000.00 | 51% |
| Fujian Jinqiang (Party C) | 19,000,000.00 | 19,000,000.00 | 19% |
| Total | 181,000,000.00 | 100,000,000.00 | 100% |

**Article X** The Parties agree that Party A and Party shall pay their shares in the registered capital within 3 years from the issuance of the business license, and make the full capital contributions to the Project Company within three years from the issuance of the business license respectively; Party C shall make the full capital contribution subscribed by it to the Project Company within five years from the issuance of the business license.

**Article XI** The Project Company shall, after the Parties have made their full capital contributions to the Project Company within the said time limits, complete the registration of changes in paid-up capital, issue the Capital Contribution Certificate to the Parties respectively, and when necessary, engage a qualified CPA firm to conduct capital verification and issue the capital verification report.

**Article XII** As key members of the management team of the Project Company, partners of

Party C shall, after the establishment of the Project Company, cause the Project Company to put into official operation, and ensure to complete the following work at the following time: 1) completing the decoration, recruitment, procurement of instruments and equipment, application for qualifications as third-party medical laboratory, review of practice, trial rum and registration of Fuzhou Furui Medical Laboratory before December 31, 2016; 2) the third party medical laboratory shall be approved, the Project Company shall be put into operation and generate business income before December 31, 2017; and (3) 2018-2020 the Project Company shall achieve an accumulated net profit of not less than RMB 40 million.

**Article XIII** The shareholders of the Project Company may transfer all or part of their equity interests among them. Where a shareholder transfers its equity interests to a party other than a shareholder, it shall obtain the consent of all shareholders of the Project Company. The dissenting shareholders shall purchase the equity interests to be transferred under the same conditions. If they do not purchase the equity interests, they shall be deemed to consent to the transfer. Other shareholders shall have the right of first refusal to purchase the equity interest consented by all shareholders to be transferred under the same conditions.

# Chapter IV Business Scope and Development of the Project Company

**Article XIV** The businesses carried out by the Project Company are gene tests and diagnosis with which the Project Company provides genomic diagnosis and research services to medical institutions, scientific research institutes, enterprises and institutions:

(I) Basic reproductive health researches and clinical application services;

(II) Basic scientific research services;

(III) Basic researches for complicated diseases and clinical application services;

(IV) Basic pharmaceutical research and clinical application service.

**Article XV** The development target of the Project Company:

Considering the professionalism of Party A in the field of gene tests and diagnosis, the advantages of Party B in chemical reagents and IVD reagents and the experience of Party C in management and operation, and based on the business and financing platform of Party B's listed

company, provide high-quality genomic diagnosis and research services to medical institutions, scientific research institutes, enterprises and institutions; and build up a famous brand in the domestic gene test and diagnosis market.

## Chapter V Business Place of the Project Company

**Article XVI** Registered Address of the Project Company: No. 4F01B, 10# Plant Building, Zone C, No. 9 Maoling Road, Xindian Town, Jin'an District, Fuzhou City, Fujian Province.

## Chapter VI Responsibilities of the Parties

**Article XVII** Party A's Responsibilities

(I) To contribute the registered capital subscribed by it to the Project Company as scheduled;

(II) To assist in the registration of the Project Company;

(III) To lead and principally be responsible for the scientific researches and technologies of the Project Company, to provide the Project Company with social resources, technological resources and market information relating to its business to ensure the businesses of the Project Company can be carried out as soon as possible in a steadily manner.

(IV) To provide customer resources to the Project Company;

(V) To deal with other matters entrusted by the Project Company.

**Article XVIII** Party B's Responsibilities

(I) To contribute the registered capital subscribed by it to the Project Company as scheduled;

(II) To assist in the registration of the Project Company;

(III) To recommend and assist in recruiting managers, management personnel, technical staff and other workers with certain levels and work experience based on the needs of the Project Company;

(IV) To provide the Project Company with social resources, technical resources and market information in connection with its businesses, and assist the Project Company in developing

domestic businesses by taking full advantages of the listed company;

(V) To provide customer resources to the Project Company;

(VI) To deal with other matters entrusted by the Project Company.

**Article XIX** Party C's Responsibilities

(I) To contribute the registered capital subscribed by it to the Project Company as scheduled;

(II) To organize and deal with the registration of the Project Company;

(III) To provide management and market supports for the development of the Project Company based on its operation and management experience as well as its advantages in market channels.

(IV) To deal with other matters entrusted by the Project Company.

## Chapter VII Transfer of Technologies and Confidentiality

**Article XX** Party A shall ensure that technologies provided by it to the Project Company and which are in relation to the operation of the Project Company's businesses (including documents, electronic data and research models relating to such technologies) are legally owned by it or licensed to it for use through lawful means by their legal owners. Party A shall be fully liable for compensation to the Project Company in case of any economic loss arising from the technologies provided by Party A violating any intellectual property rights or other third-party's legal rights and interests.

**Article XXI** All inventions or patent rights or know-hows obtained by the Project Company during its operation process shall be owned by the Project Company, and all related information shall be stored independently by the Project Company.

**Article XXII** Any trade secrets, patent rights or know-hows obtained by the Project Company through acquisitions shall be kept in confidence by the Parties in accordance with the provisions of related agreements.

**Article XXIII** The Parties may use existing technical knowledge owned by the Project Company free of charge; when either Party intends to use any technical knowledge of the Project Company, it shall sign a technology license agreement with the Project Company and perform the

confidentiality clause specified in the agreement.

**Article XXIV** The Parties shall cause their staff and workers assigned by them to the Project Company to keep all trade secrets and related technologies in confidence.

# Chapter VIII Management of Technical Achievements, Know-how and Patents

**Chapter XXV** Any development or improvement made by employees, subcontractors and agents of the Project Company to any inventions, software or know-hows shall be owned by the Project Company; any patent applications and copyright registration shall be conducted in the name of the Project Company.

# Chapter IX Restrictions

**Chapter XXVI** No shareholder shall carry out any activity in its own name or on behalf of the Company, which may be detrimental to the interest of the Project Company; otherwise all proceeds obtained from such activity shall be owned by the Project Company, and in case of any loss, compensation shall be made in accordance with the relevant law.

**Article XXVII** When the controlling shareholder of the Project Company is exercising its voting right, it shall not make any decision which is detrimental to the interests of the Project Company and other shareholders; not use the material assets reorganization to damage the lawful rights of the Project Company and other shareholders or use its special position to gain additional interests.

**Article XXVIII** Shareholders shall nominate their directors and supervisors to the Project Company strictly in accordance with the conditions and procedures specified in laws, regulations, the Agreement and the articles of association of the Project. Candidates nominated by shareholders as directors and supervisors shall have professional knowledge and capacity to make decisions and supervision. The controlling shareholder shall not appoint or remove any senior officer by circumventing the shareholders' meetings or the board of directors.

**Article XXIX** Any important decisions of the Project Company shall be made through a

shareholders' meeting and the board of directors' meeting in accordance with law. The controlling shareholder shall not directly or indirectly interfere with the Project Company's decisions or business activities conducted in accordance with laws.

**Article XXX** Shareholders and their affiliates shall not be engaged in any business which is same or similar with those conducted by the Project Company.

**Article XXXI** Where any shareholder is in violation of the above clauses, compensation shall be made subject to the Project Company or other shareholders' actual losses.

# Chapter X Shareholders' Meeting

**Article XXXII** The shareholders' meeting of the Project Company shall be composed of all shareholders, and is the highest authority of the Project Company and perform the powers and duties in accordance with the articles of association of the Project Company.

**Article XXXIII** The shareholders' meeting shall exercise the following powers:

(I) To decide upon the operation policies and investment plans of the Project Company;

(II) To elect and replace directors and supervisors acted by representatives of assumed by non-representatives of the employees and deciding the matters relating to their salaries and compensations and decide on matters relating to remuneration to directors and supervisors;

(III) To deliberate and approve reports of the board of directors;

(IV) To deliberate and approve reports of the board of supervisors;

(V) To deliberate and approve annual financial budget plans and final account plans of the Project Company;

(VI) To deliberate and approve the Project Company's profit distribution plans and loss recovery plans;

(VII) To make resolutions about the increase or reduction of the Project Company's registered capital;

(VIII) To make resolutions about the issuance of corporate bonds;

(IX) To make resolutions on the transfer of capital contributions to a person other than a shareholder;

(X) To adopt resolutions about the assignment, split-up, change of company form, dissolution, liquidation of the company;

(XI) To amend the articles of association of the Project Company.

**Article XXXIV** Any resolution made by the shareholders' meeting in respect of any matter mentioned above shall be adopted by shareholders representing more than two thirds of the voting rights.

**Article XXXV** Shareholders shall exercise their voting rights in proportion to their capital contributions to the registered capital at the shareholders' meetings.

**Article XXXVI** The shareholders' meetings shall be divided into two types: regular meetings and temporary meetings. The regular meetings shall be held in accordance with the provisions of the articles of association. Shareholders representing more than 1/4 voting rights, more than 1/3 of directors or supervisors may propose to hold a temporary meeting. The shareholders' meeting shall be convened by the board of directors and chaired by the Board chairman who may appoint other director to chair the meeting if he/she is unable to perform his/her duties for special reasons.

# Chapter XI Board of Directors

**Chapter XXXVII** The Company shall have a board of directors comprising three members: one to be appointed by Party A and two appointed by Party B. The chairman of the board of directors shall be acted by the director appointed by Party B and the vice chairman shall be acted by the director appointed by Party A.

**Article XXXVIII** The chairman of the board of directors shall be the legal representative of the Company. If the chairman is unable to perform his/her duties for whatever reasons, the vice chairman shall represent the Company.

**Article XXXIX** A director may appoint another director to exercise his/her rights when a board meeting is held, in which case a general power of attorney shall be submitted to the board of directors.

**Article XL** Decisions of the board of directors shall be adopted by directors or their proxies representing 2/3 of the total votes at the meeting, provided that any significant matters shall be passed by all the directors or their proxies, which include (without limitation to):

(I) Amendments made to the articles of association of the Project Company;

(II) There is any change to the principal activities of the Project Company, the Project Company carries out any business other than its principal activities or withdraw from its principal activities;

(III) Increase or decrease in the registered capital of the Project Company;

(IV) Separation, merger, combination, change to the form of, liquidation or dissolution of the Company;

(V) Lease, transfer or disposal of all or substantially all of its properties of the Project Company;

(VI) Grant, licensing or transfer and donation of the right of operation and intellectual property rights of the Project Company to any third party;

(VII) Profit distribution plans of the Project Company;

(VIII) Employment or dismissal of the general manager of the Project Company;

(IX) Decision on the budgets or approval of final accounting of the Project Company;

(X) Debt or significant capital expenditure with a single amount of more than RMB one million yuan (RMB 1,000,000.00) and an accumulated amount of more than RMB one million five hundred thousand yuan only (RMB 1,500,000.00) within one accounting year, other than the annual budget of the Project Company;

(XI) Establishment or removal of subsidiaries or branches of the Project Company;

(XII) Any financing or borrowing of the Project Company;

(XIII) Any external security provided by the Project Company or any of subsidiaries controlled by it or external mortgage, pledge, liens over its assets;

(XIV) Introduction of strategic investors by the Project Company or outbound investment with a single amount of more than 20% of the net assets and an accumulated amount of more than 25% of the net assets of the Project Company during one accounting year.

(XV) The related-party transactions between the Company and any shareholder or its affiliates exceeding RMB 2 million (if a related-party transaction involves non-cash assets, the Project Company shall inform shareholders in writing and shareholders shall have the right to decide whether to engage an asset appraisal firm to appraise

non-cash assets.)

(XVI) Preparation of and change to any stock incentive plans to the management;

(XVII) Any transaction that may result in the change to the controlling shareholder or the actual controller of the Project Company;

(XVIII) Any significant change to the legal person structure and the organization structure of the Project Company.

**Article XLI** The board of directors shall meet every six months, and the meetings shall be convened and held by the chairman, and in the absence of the chairman, by the vice chairman. Under special circumstances, the chairman or more than 2/3 of directors may propose to convene an special board meeting. The board meetings are generally held in the business place of the Project, or other places if decided by the board of directors. 10-day prior notices shall be given to all the directors in case that the board meeting is held. The board of directors shall cause meeting minutes to be kept and signed by all directors present at the meeting.

Article XLII The Project Company shall have one supervisor to be recommended by Party B. Directors, general manager shall not serve as supervisors. The term of office of a supervisor is three years, upon the expiration of the term, a supervisor may be reappointed and serve another term. The supervisor may attend the meetings of the board of directors as a non-voting member.

**Article XLIII** The supervisor shall exercise the following powers:

(I) To examine the financial affairs of the company;

(II) To supervise the law and regulation violating acts or the articles of association of directors and general manager in performing their duties;

(III) To request directors or general manager to remedy their acts whenever such acts harm the interests of the Company;

(IV) To propose the convening of an extraordinary shareholders' meeting; and

(V) To exercise other powers as provided for in the articles of association.

# Chapter XII Management Body

**Article XLIV** The Project Company shall have one general manager and one vice general manager to be appointed by the Parties; the financial director shall be recommended by Party B;

the said persons shall be employed by the board of directors and take offices for three years, and may serve another term upon approval by the board of directors.

**Article XLV** The general manager is responsible to execute all resolutions of the board of directors, organize and lead the regular operation and management of the Project Company. The management body shall have several managers who will be in charge of the departmental work of the Project Company respectively.

**Article XLVI** In case the general manager or financial director commits serious breach of duties, or is unable or unwilling to perform his/her duties, or is incapable to operate the Project Company, the board of directors may replace them at any time by resolution.

## Chapter XIII Labor Management

**Article XLVII** The Project Company shall manage its personnel in accordance with the labor and personnel management regulations of the country and its employees shall be recruited on a contractual basis. Any employee shall be subject to the qualification examination conducted by the Project Company without any interference from any shareholder.

**Article XLVIII** Matters in connection with the recruitment, dismissal, resignation, wages and benefits, labor protection, labor insurance, labor disciplines shall be in compliance with the Labor Law of the People's Republic of China and its implementation rules, for which a plan shall be developed by the board of directors and a labor agreement shall be signed to govern.

**Article XLIX** The remunerations, social insurance and benefits, travel cost standards to the Senior officers, technical staff recommended by Party A and Party B and engaged by the Project Company shall be decided by the board of directors at a board meeting.

## Chapter XIV Finance and Profit Distribution

**Article L** The Project Company shall establish its financial and accounting rules and regulations in accordance with the laws, administrative regulations and rules of competent authorities.

**Article LI** The Project Company shall prepare a quarterly financial report within thirty days

after the end of the first three and nine months of each fiscal year, and prepare the interim financial report within sixty days after the end of the first six months of each fiscal year; and prepare the annual financial report within one hundred and twenty days after the end of each fiscal year.

**Article LII** The annual financial reports and the interim financial reports used for the interim profit distribution of the Project Company shall include:

(I) Balance sheets;

(II) Profit statements;

(III) Profit distribution statements;

(IV) Statements of changes in financial positons (or cash flow statements);

(V) Notes to financial statements.

**Article LIII** Where the Project Company does not make an interim profit distribution, the interim financial statements shall include financial statements and notes to financial statements other than the one specified in Item (III) above.

**Article LIV** The quarterly financial reports, interim financial reports and annual financial reports shall be prepared in accordance with the relevant laws and regulations.

**Article LV** Except the statutory accounting books, the Project Company will not establish any accounting book and open saving account in individual's name.

**Article LVI** The profits remaining after the Project Company has paid the taxes shall be distributed in the following order:

(I) To cover the loss of the previous year;

(II) 10% to be paid to the statutory reserve fund of the Company.

When the accumulated amount of the statutory reserve fund of the Project Company reaches 50 of the registered capital, no statutory reserve will be further made. After the company has set aside funds for the statutory common reserve funds, the company may set aside funds for a discretionary common reserve funds at the shareholders' meeting, and the Company will not make profit distribution to its shareholders before covering the loss of the Company and setting aside funds for the statutory reserve fund.

**Article LVII** When the general shareholders' meeting resolves to convert the reserve fund into capital, it shall be done in proportion to the shareholdings of the shareholder. When converting the

statutory reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the Project Company.

**Article LVIII** After the resolution regarding the profit distribution is made at the general shareholders' meeting, the board of directors of the Project Company shall complete the distribution of dividends (or shares) within one month after the general shareholders' meeting is held.

**Article LIX** The Project Company will try its best to obtain tax credits and exemptions.

**Article LX** The audit firm shall be engaged to examine and audit the financial affairs of the Project Company. The audit shall cover all vouchers, records, receipts, books, statistical reports and financial reports, and the audit reports shall be submitted to the board of directors and the general manager; the audit results shall be reported to the shareholders annually; if Party A or Party B intends to engage its own auditor to audit the annual financial affairs of the Project Company, other shareholders of the Project Company shall give full cooperation and the auditor's expenses shall be borne by the engaging party. However, any internal expenses incurred from such additional audit shall be borne by the Project Company.

## Chapter XV Insurances

**Article LXI** The Project Company may maintain insurances for its core businesses with the insurance type, insured value and period of insurance to be determined by the board of directors. The insurance premiums shall be paid by the Project Company.

## Chapter XVI Force Majeure

**Article LXII** In case of any change to the national laws, regulations and policies, preventing any term of the Agreement from being performed and even resulting in inability to perform, the affected party shall inform the other parties immediately, and deliver the said documents.

**Article LXIII** When the circumstance mentioned in Article LXIX occurs, the Parties shall amend the Agreement as soon as possible through negotiations so that the investors will not suffer any loss arising therefrom. If either party disagrees to make such amendment, the other parties

may have the right to suspend the performance of the Agreement according to the provisions of Article LXXVIII, but shall give a 10-day prior written notice.

**Article LXIV** If the Project Company is unable to operate its business or it becomes difficult or unable to perform the Agreement due to any force majeure, including earthquake, typhoon, flood, fire, war and other events which are unforeseeable and whose occurrence and consequence can't be avoided or prevented, the party suffering such force majeure event shall immediately inform the other party by call, and provide the other parties with the details about the vent and effective certifications certifying the effect or damages caused to the operation of the Project Company within the shortest time. The said certifications shall be issued by a notary public office of the place where such event occurred. The Parties shall negotiate with each other to decide whether to dissolve the Project Company, or relieve or suspend the operations of the Project Company, or to stop the business activities of the Project Company based on the degree of such damage or effect on the Project Company.

**Article LXV** The Project Company may be dissolved earlier after approved by the board of directors and upon resolution of the shareholders' meeting if any force majeure event renders the Project Company unable to continue its business, or the Project Company suffers losses for consecutive years.

**Article LXVI** If any shareholder fails to perform the Agreement or its obligations hereunder not due to the force majeure event, or commits serious breach of the Agreement, rendering the Project Company unable to continue its business or achieve the business objectives specified herein, it shall be deemed as a breach of agreement, in which case the other shareholders may have the right to terminate the Agreement in accordance with the provisions hereof in addition to the right to claim for loss against the defaulting party. If the Parties agree to continue to operate the Project Company, the defaulting party shall compensate economic losses suffered by the Project Company.

## Chapter XVII Dissolution and Liquidation

**Article LXVII** The Project Company shall be dissolved and liquidated in accordance with law if one of the following circumstances occurs:

(I) The business term has expired;
(II) A resolution on dissolution has been adopted by the shareholders' meeting;
(III) Dissolution is required for merger or division of the company;
(IV) The Company is declared bankrupt because it becomes insolvent to pay any debt due;
(V) The Project Company has been ordered to be closed down in accordance with Laws due to its violations of the laws and regulations.

**Article LXVIII** Where the Project Company is dissolved under the circumstances specified in Items (I) and (II) of the preceding article, a liquidation team shall be established within fifteen days. The members of the liquidation team shall be selected according to the ordinary resolution adopted by the shareholders' meeting.

Where the Project Company is dissolved under the circumstance mentioned in Item (III) of the preceding article, the liquidation work shall be carried out by the parties to the merger or division in accordance with the agreement signed at the time of merger or division.

Where the Project Company is dissolved under the circumstance mentioned in Item (IV) of the preceding article, the liquidation work shall be carried out by the liquidation team which is composed of shareholders, competent authorities and related professionals organized by the people's court in accordance with the provisions of law.

Where the Project Company is dissolved under the circumstance mentioned in Item (V) of the preceding article, the liquidation work shall be carried out by the liquidation team which is composed of shareholders, competent authorities and professionals organized by the authorities having jurisdiction.

**Article LXIX** After the liquidation team is established, the powers and duties of the board of directors and the general manager shall cease immediately. During the liquidation, the Project Company shall not carry out any new business activities.

**Article LXX** The liquidation team shall exercise the following powers:

(I) To carry out clearance of the assets of the company and compile the balance sheet and list of assets.
(II) to notify creditors by notice or announcement;
(III) To handle the remaining businesses of the company;
(IV) To pay taxes overdue;

(V) To clear claims and debts;
(VI) To dispose the remaining properties after all the debts are paid off;
(VII) To participate in civil proceedings on behalf of the company.

**Article LXXI** The liquidation team shall, within ten days after its establishment, notify the creditors and make a public announcement in at least one newspaper at least three times within 60 days.

**Article LXXII** Creditors shall declare their claims with the liquidation team within specified time limits. When declaring their claims, the creditors shall explain relevant particulars of their claims and provide supporting materials. Claims shall be registered by the liquidation team.

**Article LXXIII** After the liquidation team has thoroughly examined the company's property and prepared a balance sheet and a schedule of properties, it shall develop a liquidation plan and submit the same to the shareholders' meeting or the competent authorities for confirmation.

**Article LXXIV** The properties of the Project Company shall be applied in the following order:

(I) To pay the liquidation charges;
(II) To pay wages and labor insurance premiums for staff and workers;
(III) To pay outstanding taxes;
(IV) To pay the debts owed by the Project Company;
(V) To be distributed in proportion to the shareholdings of its shareholders.

The Company's properties may not be distributed among its shareholders prior to full repayment in accordance with the stipulations of Items (I) to (IV) of the preceding paragraph.

**Article LXXV** If the liquidation team, having thoroughly examined the company's properties and prepared a balance sheet and a schedule of property, finds that the Company's properties are insufficient to pay its debts in full, it shall apply to the people's court for declaration of insolvency according to the law. After the people's court has ruled to declare the Company insolvent, the Company's liquidation team shall hand over the liquidation matters to the people's court.

**Article LXXVI** Following the completion of liquidation, the liquidation team shall prepare the liquidation report and the statement of receipts and expenditures during the liquidation period and the financial books, and submit the same to the general shareholders' meeting or competent authorities for confirmation.

The liquidation team shall apply for cancellation of the company's registration and announce the company's termination within thirty days from the confirmation of the liquidation report by the general shareholders' meeting or the competent authorities.

**Article LXXVII** Members of the liquidation team shall be devoted to their duties and perform their liquidation obligations according to the law. Members of the liquidation team may not abuse their authority to accept bribes or other illegal income and may not encroach the project company's properties.

If members of the liquidation team willfully or through gross negligence cause losses to the company or its creditors, they shall be liable for compensation.

# Chapter XVIII Settlement of Disputes

**Article LXXVIII** Any dispute and demand arising among the Parties, or any dispute and demand in connection with the termination of the Agreement during the term or any extended period of time shall be settled through consultations and negotiations in a friendly and good-faith manner. If any dispute can't be settled by the Parties within the agreed time, it shall be submitted to South China International Economic and Trade Arbitration Commission for arbitration in accordance with the arbitration rules in effect on the date of the Agreement. The arbitrament shall be final and binding upon the Parties. The arbitration cost shall be borne by the losing party. Each party shall bear its own costs associated with the engagement of experts, witnesses and attorneys.

**Article LXXIX** During the arbitration process, the Agreement shall remain in full force and effect except for the part which is under arbitration.

# Chapter XIX Mailing Addresses and Notices

**Article LXXX** The mailing address designated by Party A is as follows:

Address:

Tel:

Contact Person:

**Article LXXXI** The mailing address designated by Party B is as follows:

Address:
Tel:
Contact Person:

**Article LXXXII** The mailing address designated by Party C is as follows:

Address:
Tel:
Contact Person:

**Article LXXXIII** The notices of the Project Company shall be given by one of the following methods:

(I) in person;
(II) by mail;
(III) by telex.

Shareholders shall inform the Project Company immediately of any change to their addresses or contact persons for the purpose of record.

**Article LXXXIV** After a notice given by the Project Company is served, a receipt shall be required to be signed (or sealed) by the person on whom the notice is served, and the date indicated on the receipt by the person on whom the notice is served shall be regarded as the date of service; if a notice is sent by mail, the first working day from the date of delivery to the post office shall be deemed as the date of service. If a notice involves any right or obligation of the Parties, a written notice shall be given, and the meeting notice shall be given ten days in advance.

## Chapter XX Effectiveness and Miscellaneous

**Article LXXXV** The Agreement, including its attachments, schedules, appendices and exhibits attached hereto, shall not come into effect until it is signed by the representatives authorized by the Parties.

**Article LXXXVI** For any matter not covered herein, a supplementary agreement may be concluded by the Parties, which shall have the same effect with the Agreement.

**Article LXXXVII** Any amendment to the Agreement and its attachments shall not go into effect until a written agreement is signed by the Parties hereof.

**Article LXXXVIII** This Agreement is made into eight copies with two copies to be kept by the Parties respectively and the remaining to be kept by the Project Company.

(the following is left blank)

(This page contains no text and is the signature page of the Cooperation Agreement on the Establishment of Fujian Fujun Gene Biotech Co., Ltd. among Shenzhen Fujin Gene Science and Technology Co., Ltd., Xilong Scientific Co., Ltd. and Fuzhou Jinqiang Investment Partnership (LP))

Party A: Shenzhen Fujin Gene Science and Technology Co., Ltd. (Seal)

Legal Representative (or Authorized Person): Gao Hanlin

*/s/ Gao Hanlin*

Date: April 25, 2017

Party B: Xilong Scientific Co., Ltd. (Seal)

Legal Representative (or Authorized Person): Huang Weipeng

*/s/ Huang Weipeng*

Date: March 2, 2016

Party C: Fuzhou Jinqiang Investment Partnership (LP) (Seal)

Legal Representative (or Authorized Person): Wei Xianshu

*/s/ Wei Xianshu*

Date: March 2, 2016

# Technical Know-how License Agreement

**between**

**Fulgent Genetics, Inc.**

**and**

**Fujian Fulgent Gene Biotech Co., Ltd.**

**No.: FULGENT201611-9**

**Date: April 25, 2017**

This *Technical Know-how License Agreement* (hereinafter referred to as "**this Agreement**") is concluded by the following parties in Shenzhen, the People's Republic of China (hereinafter "**PRC**") on **April 25, 2017:**

Party A: Fulgent Genetics, Inc. (hereinafter referred to as "**Party A**" or "**Licensor**")

Add.: 4978 Santa Anita Ave. Temple City, CA, 91780

Authorized Representative: Ming Hsieh

Party B: Fujian Fulgent Gene Biotech Co., Ltd. (hereinafter referred to as "**Party B**" or "**Licensee**")

Add.: 4F01B, Plant 10#, Zone C, 9 Maoling Road, Xindian Town, Jin'an District, Fuzhou City, Fujian Province

Legal Representative: Wei Xianshu

Party A and Party B are hereinafter referred to as "**Parties**" jointly or "**a Party**" individually.

WHEREAS,

1. Party A is the CLIA and CAP certified clinical molecular diagnostic gene testing service organization, with independent research and development of bio-information analysis technology, genetic database, top technical equipment and years of genetic information interpretation experience, providing the world's users with most comprehensive high precision genetic testing services. Party B intends to carry out clinical molecular diagnostic genetic testing business in PRC (excluding Hong Kong, Macao and Taiwan regions).

2. In accordance with the *Contract Law of the PRC* and other relevant laws and regulations, the two parties reach agreement on the following terms and conditions on the basis of the principle of common development and mutual benefit, concerning Party A's agreement with Party B's paid use of technical secrets and subsequent cooperation.

**I. Contents of licensed technical secret**

Clinical molecular diagnostic gene detection technology, the corresponding software and database. (Hereinafter referred to as "**Licensed Technical Secrets**") The content of the licensed technical secrets shall be separately listed by two parties.

**II. Licensed region for the use of technical secrets and to carry out businesses**

Party B shall use Licensed Technical Secrets to carry out businesses in the whole country (excluding Hong Kong, Macao and Taiwan regions).

**III. Term for licensed use of technical secrets**

1. Party A permits Party B to use Licensed Technical Secrets from Jan. 1, 2017 to Dec. 31, 2018. During this period, Party B shall strictly maintain the technical secrets provided by Party A, and shall not publish or disclose details or information related to the Licensed Technical Secrets to the public, the same industry and any third party other than parties of this Agreement.

2. The parties may agree on whether or not to extend this Agreement and sign the relevant agreement three (3) months before the expiry of the license period stipulated hereby.

**IV. Royalty for technical secrets**

Party A shall deliver materials related to Licensed Technical Secrets to Party B, and provide Party B or its personnel with the necessary guidance for the business. Party B shall pay Party A the royalty amounting to [*****] of total net revenue of Party B generated from the use of Licensed Technical Secrets minus agency cost of such business sale, and the total net revenue data and agency cost of sale are subject to the audit report issued by the audit agency approved by Party A. Within five (5) working days after each natural quarter date (i.e. March 31, June 30, September 30 and December 31), Party B shall pay royalty of last quarter to Party A or the third party designated by party A according to quarterly financial statement of Party A; after end of each natural year, the royalty for such year will be adjusted according to data in the audit report issued by the audit agency approved by Party A, and any supplemental payment or return resulted from aforesaid adjustment shall be completed before April 30 of next natural year.

**V. Technical secret upgrade agreement**

In the authorized period of use, in case of the upgrade of the technical secret, the upgraded technical secret results, as well as the new technical results derived from the use of technical secrets, are owned by Party A; Party B is licensed without paying additional fees, and the use period is the same with use period of technical secrets.

If Party A or its related parties need to use technical secret results independently researched or developed by Party B or derivative intellectual property rights without relying on the technical secrets hereunder, they shall consult with Party B to agree on relevant matters of use and fees.

**VI. Technical secret confidentiality requirements**

1. Party B shall, during the use of Party A's technical secret, strictly keep secrets and shall not publicize or disclose the technical secret to any third party other than parties of this Agreement without Party A's written consent.

2. Party B shall urge its internal technical employees or staffs to strictly comply with the confidentiality agreement and sign a confidentiality agreement in a form satisfactory to Party A with the technical employees or staffs who may have access to the technical secret.

3. Party B shall properly keep the information or documents of the technical secret. When this Agreement is terminated or rescinded or its performance is completed, Party B shall return the above information or documents to Party A.

**VII. Subsequent guidance and training matters**

Party A shall guide and train Party B’s staffs in respect of the use of Licensed Technical Secrets; as for the specific services and training matters, the two sides may negotiate and sign relevant agreement.

**VIII. Intellectual property guarantee**

Party A warrants that it exclusively owns the technical secrets licensed to Party B and has not disclosed technical secrets or permitted other third parties to use them; there is no right defect which impedes the enforcement of this Agreement, nor will the use of such technical secrets by Party B result in any tort against any third party or recourse by any third party, and the technical secrets can be effectively converted into production results.

**IX. Liabilities for breach**

1. Party A shall not be liable for the loss of the reputation or commercial profits arising from the sale of Party B's products which are manufactured by using Licensed Technical Secret, nor shall it be liable for punitive damages. Where Party B suffers damage or loss due to sales of Party B's products, Party A should take remedial measures to guide and train Party B or its staffs, so that the product will comply with product quality standards.

2. Where Party B fails to pay royalty to Party A according to provisions hereof, Party A shall have the right to terminate this Agreement unilaterally and cancel Party B's use of the license, and Party B shall pay to Party A the royalties and overdue interests (calculated according to 5‰ of the amount of royalties to be paid to Party A per day).

3. Where Party B or its employees are in breach of confidentiality provisions, Party A should be compensated for its losses arising therefrom and remedial measures should be adopted in time to minimize the losses of Party A.

**X. General terms**

1. Annexes, orders and other documents (if any) of this Agreement constitute part of this Agreement and are binding. In case of conflicts, it is subject to mutually agreed supplemental terms.

2. No rights or obligations of Party B in this Agreement shall be transferred to any third party without the written consent of Party A.

3. No amendment, change or addition or deletion of this Agreement shall be binding upon both parties except being signed by both parties.

4. The establishment, entry into force, interpretation and performance of this Agreement shall be governed by the laws of the People's Republic of China.

5. The parties hereby agree that any dispute arising out of or in connection with this Agreement shall be settled by consultation and mediation. If the dispute is not resolved through friendly negotiation, the parties agree that any dispute arising out of or in connection with this Agreement shall be submitted to the South China International Economic and Trade Arbitration Commission for arbitration in accordance with the existing effective arbitration rules at the time of application for arbitration. The arbitration venue is in Shenzhen, Guangdong Province, and all arbitration fees shall be borne by the losing party. The losing party should also compensate successful party for the attorneys' fees and other reasonable expenses. The arbitral award is final and binding on both parties.

6. This Agreement shall be effective upon being signed or sealed by the legal representative / authorized representative of both parties. If the date of signing mentioned in the prelude is different from the date of execution by both parties, earlier time shall prevail.

7. This Agreement is in duplicate, each of which is original and of the same legal force.

(No text hereinafter and is taken as the signature page)

(No text for this page, which is the signature page for Technical Know-how License Agreement between Fulgent Genetics, Inc. and Fujian Fulgent Gene Biotech Co., Ltd.)

**Party A: Fulgent Genetics, Inc.** (seal)

*/s/ Ming Hsieh*

Ming Hsieh

Authorized representative: (signature)

**Party B: Fujian Fulgent Gene Biotech Co., Ltd.** (seal)

*/s/ Wei Xianshu*

Wei Xianshu

Legal representative: (signature)

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ming Hsieh, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 of Fulgent Genetics, 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(s) 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 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) 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

   (c) 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(s) 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 14, 2017

By: /s/ Ming Hsieh
Ming Hsieh
President, **Chief Executive Officer**
(principal executive officer)

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Paul Kim, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 of Fulgent Genetics, 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(s) 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 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 subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) 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

   (c) 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(s) 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 14, 2017

By: /s/ Paul Kim
Paul Kim
**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**

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 of Fulgent Genetics, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies in his capacity as the specified officer of the Company, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) 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 result of operations of the Company.

Date: August 14, 2017

By: /s/ Ming Hsieh
Ming Hsieh
President, **Chief Executive Officer**
(principal executive officer)

Date: August 14, 2017

By: /s/ Paul Kim
Paul Kim
**Chief Financial Officer**
(principal financial and accounting officer)

This certification accompanies the Quarterly Report on Form 10-Q to which it relates and shall not be deemed filed with the Securities and Exchange Commission or incorporated by reference into any filing of the Company 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 the Form 10-Q), irrespective of any general incorporation language contained in such filing.