FLUIDIGM CORP
Form 10-Q
August 10, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2015
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-34180

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

Delaware (State or other jurisdiction of incorporation or organization)	77-0513190 (I.R.S. Employer Identification Number)

7000 Shoreline Court, Suite 100
South San Francisco, California 94080
(Address of principal executive offices) (Zip Code)
(650) 266-6000
(Registrant's telephone number, including area code)

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

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

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

As of July 31, 2015, there were 28,713,113 shares of the Registrant's common stock outstanding.

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

	June 30, 2015 (Unaudited)	December 31, 2014 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$23,745	$33,713
Short-term investments	76,181	81,588
Accounts receivable (net of allowances of $76 at June 30, 2015 and $120 at December 31, 2014)	21,786	22,384
Inventories	18,817	15,991
Prepaid expenses and other current assets	2,851	2,221
Total current assets	143,380	155,897
Long-term investments	27,119	27,499
Property and equipment, net	14,102	13,889
Other non-current assets	3,820	3,966
Developed technology, net	96,600	102,200
Goodwill	104,108	104,108
Total assets	$389,129	$407,559
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$5,964	$5,919
Accrued compensation and related benefits	5,047	6,874
Other accrued liabilities	10,372	9,664
Deferred revenue, current portion	7,547	6,928
Total current liabilities	28,930	29,385
Convertible notes, net	195,569	195,455
Deferred tax liability	24,381	26,152
Deferred revenue, net of current portion	4,933	4,357
Other non-current liabilities	2,099	1,791
Total liabilities	255,912	257,140
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized, no shares issued and outstanding at June 30, 2015 and December 31, 2014	—	—
Common stock, $0.001 par value, 200,000 shares authorized at June 30, 2015 and December 31, 2014; 28,880 and 28,341 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	29	28
Additional paid-in capital	475,229	461,362
Accumulated other comprehensive loss	(697)	(794)
Accumulated deficit	(341,344)	(310,177)
Total stockholders' equity	133,217	150,419
Total liabilities and stockholders' equity	$389,129	$407,559

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
Product revenue	$28,558	$27,479	$55,204	$52,928
License revenue	60	74	143	186
Grant revenue	—	54	—	217
Total revenue	28,618	27,607	55,347	53,331
Costs and expenses:				
Cost of product revenue	11,965	9,955	22,611	18,659
Research and development	10,090	11,374	20,080	19,020
Selling, general and administrative	21,222	18,655	41,316	33,912
Acquisition-related expenses	—	—	—	10,696
Total costs and expenses	43,277	39,984	84,007	82,287
Loss from operations	(14,659)	(12,377)	(28,660)	(28,956)
Interest expense	(1,451)	(1,415)	(2,904)	(2,441)
Other (expense) income, net	608	(18)	(512)	30
Loss before income taxes	(15,502)	(13,810)	(32,076)	(31,367)
Benefit from income taxes	266	1,128	909	3,271
Net loss	$(15,236)	$(12,682)	$(31,167)	$(28,096)
Net loss per share, basic and diluted	$(0.53)	$(0.45)	$(1.09)	$(1.03)
Shares used in computing net loss per share, basic and diluted	28,803	27,960	28,636	27,389

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	$(15,236)	$(12,682)	$(31,167)	$(28,096)
Other comprehensive (loss) income, net of tax				
Unrealized gain on available-for-sale securities	20	(41)	75	(40)
Foreign currency translation adjustment	(117)	98	22	70
Other comprehensive income (loss), net of tax	(97)	57	97	30
Total comprehensive loss	$(15,333)	$(12,625)	$(31,070)	$(28,066)

See accompanying notes.

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

	Six Months Ended June 30, 2015	2014
Operating activities		
Net loss	$(31,167)	$(28,096)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,779	1,842
Stock-based compensation expense	8,706	9,256
Acquisition-related share-based awards acceleration expense	—	2,648
Amortization of developed technology	5,600	4,200
Non-cash charges for sale of inventory revalued at the date of acquisition	—	682
Other non-cash items	230	67
Changes in assets and liabilities:		
Accounts receivable, net	843	4,892
Inventories	(3,147)	(5,709)
Prepaid expenses and other current assets	(584)	6
Other non-current assets	(163)	(1,161)
Accounts payable	451	2,183
Deferred revenue	1,285	2,001
Other current liabilities	(999)	765
Other non-current liabilities	(1,463)	(3,811)
Net cash used in operating activities	(17,629)	(10,235)
Investing activities		
Acquisition, net of cash acquired	—	(113,190)
Purchases of investments	(33,731)	(86,793)
Proceeds from sales and maturities of investments	39,376	24,461
Purchase of intangible assets	(120)	—
Purchases of property and equipment	(2,310)	(4,563)
Net cash provided by (used in) investing activities	3,215	(180,085)
Financing activities		
Proceeds from issuance of convertible notes, net	—	195,212
Proceeds from exercise of stock options	5,128	3,457
Net cash provided by financing activities	5,128	198,669
Effect of foreign exchange rate fluctuations on cash and cash equivalents	(682)	71
Net (decrease) increase in cash and cash equivalents	(9,968)	8,420
Cash and cash equivalents at beginning of period	33,713	35,261
Cash and cash equivalents at end of period	$23,745	$43,681
Supplemental cash flow information:		
Issuance of common stock and options related to acquisition	$—	$78,196

See accompanying notes.

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FLUIDIGM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business
Fluidigm Corporation (we, our, or us) was incorporated in the State of California in May 1999 to commercialize microfluidic technology initially developed at the California Institute of Technology. In July 2007, we were reincorporated in Delaware. Our headquarters are located in South San Francisco, California.
We create, manufacture, and market innovative technologies and life-science tools focused on the exploration and analysis of single cells, as well as the industrial application of genomics, based upon our core microfluidics and mass cytometry technologies. We sell instruments and consumables, including integrated fluidic circuits (IFCs), assays, and reagents, to academic institutions, clinical laboratories, and pharmaceutical, biotechnology, and agricultural biotechnology (Ag-Bio) companies.

2. Summary of Significant Accounting Policies
Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2014 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements. These financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial information. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or for any other interim period or for any other future year. All intercompany accounts and transactions have been eliminated upon consolidation.
The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. On an ongoing basis, we evaluate our estimates, including critical accounting policies or estimates related to revenue recognition, income tax provisions, stock-based compensation, inventory valuation, allowances for doubtful accounts, and useful lives of long-lived assets. We base our estimates on historical experience and on various relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.
The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2014 included in our Annual Report on Form 10-K filed with the SEC.
Net Loss per Share
Our basic and diluted net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding for the period. Restricted stock units and options to purchase common stock are considered to be potentially dilutive common shares but have been excluded from the calculation of diluted net loss per share as their effect is anti-dilutive for all periods presented.

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

	Three Months Ended June 30,	Six Months Ended June 30,

	2015	2014	2015	2014
Stock options, restricted stock units and restricted stock awards	3,814	3,972	3,814	3,972
Convertible notes	3,598	3,598	3,598	3,598
Total	7,412	7,570	7,412	7,570

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

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, for the three and six months ended June 30, 2015 are summarized as follows (in thousands):

	Net Unrealized Gain (Loss) on Marketable Securities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at December 31, 2014	$(49)	$(745)	$(794)
Other comprehensive income	55	139	194
Balance at March 31, 2015	$6	$(606)	$(600)
Other comprehensive (loss) income	20	(117)	(97)
Balance at June 30, 2015	$26	$(723)	$(697)

Business Combinations

Assets acquired and liabilities assumed as part of a business acquisition are generally recorded at their fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset.

Accounting for business acquisitions requires management to make judgments as to whether a purchase transaction is a multiple element contract, meaning that it includes other transaction components such as a settlement of a preexisting relationship. This judgment and determination affects the amount of consideration paid that is allocable to assets and liabilities acquired in the business purchase transaction (See Note 4).

Long-lived Assets, including Goodwill

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

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

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This guidance is intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. It will be effective for our interim and annual financial statements beginning in the first quarter of 2016 and early adoption is permitted. We will apply the guidance in ASU 2015-03 in our financial statements commencing in the first quarter of 2016, which will result in a reclassification of approximately $1.0 million from Other assets to Convertible notes, net.

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3. Convertible Notes

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

In February 2014, we received $195.2 million, net of underwriting discounts, from the issuance of the Notes and incurred approximately $1.1 million in offering-related expenses. We used $113.2 million of the net proceeds to fund the cash portion of the consideration payable by us in connection with our acquisition of DVS Sciences, Inc. (now Fluidigm Sciences Inc.) (DVS) (See Note 4). Interest expense related to the Notes was approximately $1.5 million and $2.9 million for the three and six months ended June 30, 2015. Interest expense related to the Notes was approximately $1.4 million and $2.4 million for the three and six months ended June 30, 2014. Approximately $2.8 million of accrued interest under the Notes became due and was paid during the six months ended June 30, 2015.

4. Acquisition

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

The contractual price for the acquisition was $207.5 million, subject to certain adjustments as specified in the merger agreement. The measurement period for the acquisition ended on February 12, 2015. The aggregate purchase price was determined to be $199.9 million, as detailed in the table below (in thousands):

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

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

(2) In conjunction with the acquisition, we assumed all outstanding DVS stock options and unvested shares of restricted stock and converted, as of the Acquisition Date, the unvested stock options outstanding under the DVS stock option plan
into unvested stock options to purchase approximately 143,000 shares of Fluidigm common stock and the unvested DVS restricted stock into approximately 186,000 shares of restricted Fluidigm common stock, retaining the original vesting schedules. The fair value of all converted share-based awards was $14.6 million, of which $4.0 million was attributed to the pre-combination service period and was included in the calculation of the purchase price. The remaining fair value will be recognized over the awards’ remaining vesting periods subsequent to the acquisition. The fair value of the

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(unaudited)

Fluidigm equivalent share-based awards as of the Acquisition Date was estimated using the Black-Scholes valuation model.
Approximately 885,000 shares of Fluidigm common stock, with a fair value of $38.6 million as of the Acquisition Date, representing 50.3030% of the shares otherwise payable to the former stockholders of DVS, were deposited into escrow (Escrowed Shares). The Escrowed Shares comprised a portion of the merger consideration and were being held in escrow to secure indemnification obligations under the merger agreement, if any, for a period of 13 to 18 months following the Acquisition Date, subject to any then pending indemnification claims. Under the terms of the merger agreement, fifty percent (50.0%) of the aggregate shares subject to the indemnification escrow were eligible for release on March 13, 2015 (Initial Release Date), and the balance of the shares would become eligible for release on August 13, 2015, provided that in each case shares will continue to be held in escrow in amounts that we may reasonably determine in good faith to be necessary to satisfy any claims for which we have delivered a notice of claim which has not been fully resolved between us and the representative of the former stockholders of DVS (Stockholder Representative). Prior to the Initial Release Date, we submitted escrow claim notices under the terms of the merger agreement. On April 9, 2015, the Stockholder Representative provided notices objecting to our claims. In July 2015, we entered into a settlement agreement with the Stockholder Representative regarding the claims (Settlement Agreement). Pursuant to the terms of the Settlement Agreement, the parties agreed to release approximately 80% of the Escrowed Shares to the former stockholders of DVS, and the remaining approximately 20% of the Escrowed Shares to Fluidigm, which were canceled and returned to the status of authorized and unissued shares. Additionally, the parties agreed to, among other things, release various claims and waive certain rights with respect to the merger agreement. The Escrowed Shares returned will be accounted for in the third quarter of fiscal 2015, as the transaction was entered into subsequent to the period ended June 30, 2015.

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

	Allocation of purchase price
Cash and cash equivalents	$8,405
Accounts receivable, net	7,698
Inventories	3,489
Prepaid expenses and other current assets	1,482
Property and equipment, net	1,202
Developed technology	112,000
Goodwill	104,108
Other non-current assets	88
Total assets acquired	238,472
Accounts payable	(1,114)
Accrued compensation and related benefits	(761)
Other accrued liabilities	(1,204)
Deferred revenue, current portion	(1,844)
Tax payable	(45)
Deferred tax liability	(31,942)
Deferred revenue, net of current portion	(1,629)
Net assets acquired	$199,933

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

The following table provides details of intangible assets acquired in connection with the DVS acquisition as of June 30, 2015 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Useful Life (years)
Developed technology	$ 112,000	$ (15,400)	$ 96,600	10

We recognized $2.8 million and $5.6 million in intangible asset amortization expense during the three and six months ended June 30, 2015, respectively. We recognized $2.8 million and $4.2 million in intangible asset amortization expense during the three and six months ended June 30, 2014, respectively.

The $104.1 million of goodwill recognized as part of the transaction is attributable primarily to expected synergies and other benefits from the acquisition, including expansion of our addressable market from the single-cell genomics market to the larger single-cell biology market and the ability to leverage our larger global commercial sales organization and infrastructure to expand awareness of DVS's products and technology. Goodwill is not expected to be deductible for income tax purposes. There were no changes in goodwill between December 31, 2014 and June 30, 2015.

Acquisition Costs

Acquisition-related expenses were $10.7 million for the six months ended June 30, 2014 and primarily included accelerated vesting of certain DVS restricted stock and options, and consulting, legal, and investment banking fees. These costs are included within the acquisition-related expenses line of the condensed consolidated statements of operations. No such costs were incurred in fiscal year 2015 or in the three months ended June 30, 2014.

5. Balance Sheet Details

Inventories

Inventories consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Raw materials	$6,631	$4,670
Work-in-process	3,054	3,524
Finished goods	9,132	7,797
	$18,817	$15,991

Property and Equipment, net

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

	June 30, 2015	December 31, 2014
Computer equipment and software	$4,880	$3,905
Laboratory and manufacturing equipment	20,107	17,592
Leasehold improvements	5,528	4,988
Office furniture and fixtures	1,103	1,804
	31,618	28,289
Less accumulated depreciation and amortization	(18,328)	(16,360)
Construction-in-progress	812	1,960
Property and equipment, net	$14,102	$13,889

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

Intangible Assets

The total intangible assets, which includes developed technology as a result of the DVS acquisition and other intangible assets included in Other non-current assets, was $98.1 million as of June 30, 2015. The estimated future amortization expense of intangible assets as of June 30, 2015 is as follows (in thousands):

	Amount
2015 (remainder of year)	$ 5,749
2016	11,496
2017	11,481
2018	11,417
2019	11,325
Thereafter	46,654
	$ 98,122

6. Fair Value of Financial Instruments
As a basis for considering fair value, we follow a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows:
Level I: observable inputs such as quoted prices in active markets;
Level II: inputs other than quoted prices in active markets that are observable either directly or indirectly; and
Level III: unobservable inputs in which there is little or no market data, which requires us to develop our own assumptions.
Our cash equivalents, which include money market funds, are classified as Level I because they are valued using quoted market prices. Our investments are generally classified as Level II because their value is based on valuations using significant inputs derived from or corroborated by observable market data. Depending on the security, the income and market approaches are used in the model driven valuations. Inputs of these models include recently executed transaction prices in securities of the issuer or comparable issuers and yield curves.
The following table sets forth our financial instruments that were measured at fair value by level within the fair value hierarchy (in thousands):

	June 30, 2015				December 31, 2014			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Money market funds	$10,729	$—	$—	$10,729	$10,220	$—	$—	$10,220
U.S. government and agency securities	—	103,300	—	103,300	—	109,087	—	109,087
Total assets measured at fair value	$10,729	$103,300	$—	$114,029	$10,220	$109,087	$—	$119,307

There were no transfers in and out of Level I and Level II fair value measurement categories during the six months ended June 30, 2015 and 2014, and there were no changes in the valuation techniques used.

The following is a summary of investments at June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	$103,272	$32	$(4)	$103,300

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	$109,136	$3	$(52)	$109,087

The contractual maturity dates of $76.3 million of our investments are within one year from June 30, 2015. The contractual maturity dates of our remaining securities are less than eighteen months from June 30, 2015.
Based on an evaluation of securities that were in a loss position, we did not recognize any other-than-temporary impairment charges for the three and six months ended June 30, 2015 and 2014. None of these investments have been in a continuous loss position for more than 12 months. Our conclusion that these losses are not “other-than-temporary” is based on the high credit quality of the securities, their short remaining maturity periods, and our intent and ability to hold such securities until the date of recovery of their respective market values or maturity.
The estimated fair value of the Notes is based on a market approach. The estimated fair value was approximately $175.3 million (par value $201.3 million) as of June 30, 2015 and represents a Level II valuation. When determining the estimated fair value of our long-term debt, we used a commonly accepted valuation methodology and market-based risk measurements that are indirectly observable, such as credit risk.

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

	June 30, 2015	December 31, 2014
Cash	$13,016	$23,493
Money market funds	10,729	10,220
Cash and cash equivalents	$23,745	$33,713

7. Commitments and Contingencies

Operating Leases
On April 9, 2013, we entered into an amendment (the 2013 Amendment) to the lease agreement dated September 14, 2010 (as amended, the Lease) relating to the lease of office and laboratory space at our corporate headquarters located in South San Francisco, California. The 2013 Amendment provided for an expansion of the premises covered under the Lease, effective April 1, 2014; an extension of the term of the Lease to April 30, 2020 with an option to renew for an additional five years; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The 2013 Amendment also provided for an allowance of approximately $0.7 million for tenant improvements, $0.2 million of which was unused by June 30, 2015 and will be used to offset base rent obligations, and an additional allowance of approximately $0.5 million for tenant improvements, which, if used, will be repaid in equal monthly payments with interest at a rate of 9% per annum over the remaining term of the Lease.

On June 4, 2014, we entered into an additional amendment to the Lease (the June 2014 Amendment), which provided for an expansion of the premises covered under the Lease by approximately 13,000 square feet, effective October 1, 2014; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The June 2014 Amendment also provided for an allowance of approximately $0.2 million for tenant improvements, which was fully utilized by March 31, 2015, and an additional allowance of approximately $0.1 million for tenant improvements, which, if used, will be repaid in equal monthly payments with interest at a rate of 9% per annum over the remaining term of the Lease. The total future minimum lease payments for the additional space, which will be paid through April 2020, are approximately $2.2 million as of June 30, 2015.

On September 15, 2014, we entered into an additional amendment to the Lease (the September 2014 Amendment), which provided for an expansion of the premises covered under the Lease by approximately 9,000 square feet, effective October 1, 2014; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The September 2014 Amendment also provided for an allowance of approximately $0.2 million for tenant improvements. The total future minimum lease payments for the additional space, which will be paid through April 2020, are approximately $1.5 million as of June 30, 2015.

On October 14, 2013, Fluidigm Singapore Pte. Ltd., our wholly-owned subsidiary (Fluidigm Singapore), accepted an offer of tenancy (Singapore Lease) from HSBC Institutional Trust Services (Singapore) Limited, as trustee of Ascendas Real Estate Investment Trust (Landlord), relating to the lease of a new facility located in Singapore. Pursuant to the terms of the Singapore Lease, Fluidigm Singapore took possession of the facility commencing on March 3, 2014 for a term of 99 months, and the Singapore Lease and rental obligations thereunder commenced on June 3, 2014. The Singapore Lease also provides Fluidigm Singapore with an option to renew the Singapore Lease for an additional 60 months at the then prevailing market rent, and on similar terms as the existing Singapore Lease. In June 2014, Fluidigm Singapore leased additional space of approximately 2,400 square feet in the same building as the new facility on the same terms as the Singapore Lease (the June 2014 Singapore Lease). We completed the consolidation of our Singapore manufacturing operations in the new space in July 2014 and the site qualification was completed in August 2014. The leases relating to our prior manufacturing facility in Singapore terminated on August 31, 2014. In April 2015, Fluidigm Singapore leased additional space of approximately 10,000 square feet in the same building on the same terms as the Singapore Lease (the April 2015 Singapore Lease). In connection with the April 2015 Singapore Lease, Fluidigm Singapore terminated the June 2014 Singapore Lease as of June 30, 2015. The total future minimum lease payments which will be paid through June 2022, are approximately $4.5 million as of June 30, 2015.

In connection with our acquisition of DVS (See Note 4), we acquired the operating leases for facilities in Sunnyvale, California and Markham, Ontario, Canada, which expire in July 2016 and January 2016, respectively. The Canada lease includes an option to renew the lease for an additional five years at the then prevailing market rent, and on similar terms as the existing

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lease. We recognize rent expense on a straight-line basis over the non-cancelable lease term. The total future minimum lease payments for the operating leases in Sunnyvale, California and Markham, Ontario, Canada are approximately $290,000 as of June 30, 2015.

Warranty

We accrue for estimated warranty obligations at the time of product shipment. Management periodically reviews the estimated fair value of its warranty liability and records adjustments based on the terms of warranties provided to customers, historical and anticipated warranty claim experience. Activity for our warranty accrual for the three and six months ended June 30, 2015 and 2014, which is included in other accrued liabilities, is summarized below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Beginning balance	$1,064	$1,111	$1,178	$344
Warranty accrual, net	(12)	(16)	(126)	751
Ending balance	$1,052	$1,095	$1,052	$1,095

Legal Matters

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

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

8. Stock-Based Compensation

During the three and six months ended June 30, 2015, we granted certain employees options to purchase 50,000 and 326,000 shares of common stock, respectively. The options granted during the three months ended June 30, 2015 had exercise prices ranging from $23.64 to $37.46 and a total grant date fair value of $0.6 million. The options granted during the six months ended June 30, 2015 had exercise prices ranging from $23.64 to $44.20 and a total grant date fair value of $6.1 million.

During the three and six months ended June 30, 2015, we granted certain employees 40,000 and 389,000 restricted stock units, respectively. The restricted stock units granted during the three months ended June 30, 2015 had fair market values ranging from $23.64 to $37.46 and a total grant date fair value of $1.1 million. The restricted stock units granted during the six months ended June 30, 2015 had fair market values ranging from $23.64 to $44.20 and a total grant date fair value of $15.4 million. The fair value of restricted stock units is determined based on the value of the underlying common stock on the date of grant.

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

We recognized stock-based compensation expense of $4.6 million and $5.9 million during the three months ended June 30, 2015 and 2014, respectively. We recognized stock-based compensation expense of $8.7 million and $9.3 million during the six months ended June 30, 2015 and 2014, respectively. As of June 30, 2015, we had $15.8 million

and $22.3 million of unrecognized stock-based compensation costs related to stock options and restricted stock units, respectively, which are expected to be recognized over a weighted average period of 2.5 years and 3.3 years, respectively.
In conjunction with the DVS acquisition, we assumed all outstanding DVS stock options and unvested shares of restricted stock (See Note 4). As of June 30, 2015, we had $0.5 million of unrecognized stock-based compensation costs related to the assumed stock options, which are expected to be recognized over a remaining weighted average period of 1.4 years.

9. Income Taxes
The provision or benefit for income taxes for the periods presented differs from the 34% U.S. Federal statutory rate primarily due to maintaining a valuation allowance for U.S. losses and tax assets, which we do not consider to be realizable. We recorded a tax benefit of $0.3 million and $0.9 million for the three and six months ended June 30, 2015, respectively, which was primarily attributable to the amortization of our acquisition-related deferred tax liability, partially offset by tax provision and provision for uncertain tax liabilities related to our foreign operations. The tax benefit of $1.1 million and $3.3 million for the three and six months ended June 30, 2014, respectively, was primarily attributable to the release of the valuation allowance associated with our California deferred tax assets upon recording the foreign and California deferred tax liabilities arising from the DVS acquisition and the deferred tax liabilities arising from amortization of acquired intangible assets.

10. Information about Geographic Areas
We operate in one reporting segment, which is the development, manufacturing, and commercialization of life science analytical and preparatory systems consisting of instruments and consumables for academic institutions, clinical laboratories, and pharmaceutical, biotechnology, and Ag-Bio companies in growth markets, such as single-cell biology and production genomics.
The following table presents our product revenue by geography based on the billing address of our customers for each period presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
United States	$14,219	$14,200	$27,930	$25,438
Europe	9,013	7,532	15,928	13,914
Japan	935	358	2,809	4,712
Asia-Pacific	2,782	4,612	6,114	6,704
Other	1,609	777	2,423	2,160
Total	$28,558	$27,479	$55,204	$52,928

Our license and grant revenues are primarily generated in the United States. No individual customer represented more than 10% of our revenues for the three and six month periods ended June 30, 2015 and 2014.

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.
The following discussion and analysis should be read together with our condensed consolidated financial statements and the notes to those statements included elsewhere in this Form 10-Q. This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act, that are based on our management’s beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the section entitled “Risk Factors” and this Management’s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements include information concerning our possible or assumed future cash flow, revenue, sources of revenue and results of operations, operating and other expenses, unit sales, business strategies, financing plans, expansion of our business, competitive position, industry environment, potential growth opportunities, and the effects of competition.
Forward-looking statements include statements that are not historical facts and can be identified by terms such as “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects “would,” or similar expressions and the negatives of those terms.
Forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in Part II, Item 1A, “Risk Factors,” elsewhere in this Form 10-Q, and in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this Form 10-Q.
Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. You should read this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.
“Fluidigm,” the Fluidigm logo, “Access Array,” “Biomark,” “C1,” “Callisto,” “CyTOF,” “Delta Gene,” “EP1,” “Helios,” “Jun and “SNP Type,” are trademarks or registered trademarks of Fluidigm Corporation. Other service marks, trademarks, and trade names referred to in this Form 10-Q are the property of their respective owners.
In this Form 10-Q, “we,” “us,” and “our” refer to Fluidigm Corporation and its subsidiaries.

Overview

We create, manufacture, and market innovative technologies and life-science tools focused on the exploration and analysis of single cells, as well as the industrial application of genomics, based upon our core microfluidics and mass cytometry technologies. We sell instruments and consumables, including integrated fluidic circuits, or IFCs, assays, and reagents, to academic institutions, clinical laboratories, and pharmaceutical, biotechnology, and agricultural biotechnology, or Ag-Bio, companies.
We distribute our systems through our direct sales force and support organizations located in North America, Europe, and Asia-Pacific, and through distributors or sales agents in several European, Latin American, Middle Eastern, and Asia-Pacific countries. Our manufacturing operations are primarily located in Singapore and Canada. Our facility in Singapore manufactures our genomics instruments, several of which are assembled at facilities of our contract manufacturers in Singapore, with testing and calibration of the assembled products performed at our Singapore facility. All of our IFCs for commercial sale and some IFCs for our research and development purposes are also fabricated at our Singapore facility. Our proteomics analytical instruments are manufactured at our facility in Canada. We also manufacture IFCs for research and development, assays, and reagents at our facilities in South San Francisco, California.
Our total revenue grew from $71.2 million in 2013 to $116.5 million in 2014 (including $20.7 million in revenue from the sales of CyTOF 2 systems and related consumables following our acquisition of DVS Sciences, Inc., or DVS, in February 2014), and for the six months ended June 30, 2015, our total revenue was $55.3 million. We have incurred significant net losses since our inception in 1999 and, as of June 30, 2015, our accumulated deficit was $341.3

million.

Critical Accounting Policies, Significant Judgments and Estimates

Our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Changes in accounting estimates may occur from period to period.

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Accordingly, actual results could differ significantly from the estimates made by our management. We evaluate our estimates and assumptions on an ongoing basis. To the extent there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

Except as otherwise disclosed, there have been no material changes in our critical accounting policies and estimates in the preparation of our condensed consolidated financial statements during the three and six months ended June 30, 2015 compared to those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on February 26, 2015.

Results of Operations

The following table presents our historical condensed consolidated statements of operations data for the three and six months ended June 30, 2015 and 2014, and as a percentage of total revenue for the respective periods ($ in thousands):

	Three Months Ended June 30,				Six months ended June 30,			
	2015	2015	2014	2014	2015	2015	2014	2014
Revenue:								
Total revenue	$28,618	100 %	$27,607	100 %	$55,347	100 %	$53,331	100 %
Costs and expenses:								
Cost of product revenue	11,965	42	9,955	36	22,611	41	18,659	35
Research and development	10,090	35	11,374	41	20,080	36	19,020	36
Selling, general and administrative	21,222	74	18,655	68	41,316	76	33,912	64
Acquisition-related expenses	—	—	—	—	—	—	10,696	20
Total costs and expenses	43,277	151	39,984	145	84,007	153	82,287	155
Loss from operations	(14,659)	(51)	(12,377)	(45)	(28,660)	(53)	(28,956)	(55)
Interest expense	(1,451)	(5)	(1,415)	(5)	(2,904)	(5)	(2,441)	(4)
Other (expense) income, net	608	2	(18)	—	(512)	(1)	30	—
Loss before income taxes	(15,502)	(54)	(13,810)	(50)	(32,076)	(59)	(31,367)	(59)
Benefit from income taxes	266	1	1,128	4	909	2	3,271	6
Net loss	$(15,236)	(53)%	$(12,682)	(46)%	$(31,167)	(56)%	$(28,096)	(53)%

Revenue

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue:				
Instruments	$17,437	$15,370	$33,257	$30,477
Consumables	11,121	12,109	21,947	22,451
Product revenue	28,558	27,479	55,204	52,928
License revenue	60	74	143	186
Grant revenue	—	54	—	217
Total revenue	$28,618	$27,607	$55,347	$53,331

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

	Three Months Ended June 30,						Six Months Ended June 30,					
	2015			2014			2015			2014		
United States	$14,219	50	%	$14,200	52	%	$27,930	51	%	$25,438	48	%
Europe	9,013	31	%	7,532	27	%	15,928	29	%	13,914	26	%
Japan	935	3	%	358	1	%	2,809	5	%	4,712	9	%
Asia-Pacific	2,782	10	%	4,612	17	%	6,114	10	%	6,704	13	%
Other	1,609	6	%	777	4	%	2,423	4	%	2,160	4	%
Total	$28,558	100	%	$27,479	100	%	$55,204	100	%	$52,928	100	%

Our customers include academic research institutions, clinical laboratories, and pharmaceutical, biotechnology, and Ag-Bio companies worldwide. Total revenue from our five largest customers comprised 18% and 15% of our total revenue in the three and six months ended June 30, 2015, respectively, and 21% and 17% in the three and six months ended June 30, 2014, respectively.

We currently expect revenues for the second half of 2015 to be lower, compared to the corresponding period of 2014.

Comparison of the Three Months Ended June 30, 2015 and June 30, 2014

Total Revenue

Total revenue increased by $1.0 million, or 4%, to $28.6 million for the three months ended June 30, 2015, compared to $27.6 million for the three months ended June 30, 2014.

Product Revenue

Product revenue increased by $1.1 million, or 4%, to $28.6 million for the three months ended June 30, 2015, compared to $27.5 million for the three months ended June 30, 2014.

Instrument revenue increased by $2.1 million, or 13%, to $17.4 million, primarily driven by higher unit sales of our CyTOF systems, which includes the recently introduced Helios system; contributions from new products, such as the Juno and the recently introduced Polaris systems; and increased service revenues. These revenue increases were partially offset by decreases in unit sales of Biomark HD, C1 and Access Array systems, as well as negative effects of foreign currency of $1.3 million.

Consumables revenue decreased by $1.0 million, or 8%, to $11.1 million, primarily represented by decreases in sales of our analytical IFCs, and to a lesser extent, decreases in sales of our Access Array IFCs; antibodies; assays; and reagents. These decreases were partially offset by increases in sales of C1 IFCs. In addition, negative effects of foreign currency reduced consumables revenues by $0.6 million. Annualized IFC pull-through for our genomics analytical systems was below our historical range of $40,000 to $50,000 per system based on lower production genomics customer purchases, and we currently expect genomics analytical IFC pull-through to be between $25,000 and $35,000 per system per year. IFC pull-through for our genomics preparatory systems was within our expected range of $15,000 to $25,000 per system per year, and consumables pull-through for our proteomics analytical systems was within the historical range of $50,000 to $70,000 per system per year. IFC pull-through is determined by dividing the applicable IFC revenue for a specific period by the number of genomics analytical or preparatory systems, as applicable, in our installed base at the beginning of the period. Similarly, consumables pull-through for proteomics analytical systems is determined by dividing the related consumables revenue for a specific period by the number of proteomics analytical systems in our installed base at the beginning of the period. The IFC and consumables pull-through amounts are annualized by multiplying the pull-through amounts by a ratio, the numerator of which equals 12 and the denominator of which equals the number of months in the specific period.

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

Grant Revenue

Grant revenue consists of a grant from California Institute for Regenerative Medicine, or CIRM. Our CIRM grant was awarded in 2011 in the amount of $1.9 million to be earned over a three-year period which ended in April 2014. The CIRM grant

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revenue is recognized as the related research and development services are performed and costs associated with the grants are recognized as research and development expense during the period incurred.

We did not receive any grant revenue for the three months ended June 30, 2015. Grant revenue was $0.2 million for the three months ended June 30, 2014.

Cost of Product Revenue

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

	Three Months Ended June 30, 2015	2014
Cost of product revenue	$11,965	$9,955
Product margin	58 %	64 %

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

Cost of product revenue increased by $2.0 million, or 20%, to $12.0 million for the three months ended June 30, 2015 from $10.0 million for the three months ended June 30, 2014. Cost of product revenue for the three months ended June 30, 2015 and 2014 includes $2.8 million of amortization of acquired intangible assets resulting from our acquisition of DVS. Overall cost of product revenue as a percentage of related revenue was 42% and 36%, including 9.8% and 10.1% related to these charges, for the three months ended June 30, 2015 and 2014, respectively. Product margins declined 6 percentage points during the three months ended June 30, 2015 compared to the corresponding period in 2014, primarily due to the impact of higher instrument manufacturing costs, driven by overall lower volume of production, and a change in sales mix. The margins were also impacted to a lesser extent by higher stock-based compensation expenses and higher warranty costs.

Operating Expenses

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

	Three Months Ended June 30, 2015	2014
Research and development	$10,090	$11,374
Selling, general and administrative	21,222	18,655
Total	$31,312	$30,029

Research and Development

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

Research and development expense decreased $1.3 million, or 11%, to $10.1 million for the three months ended June 30, 2015, compared to $11.4 million for the three months ended June 30, 2014, mainly representing reduced stock-based compensation expenses of $1.8 million primarily due to the full vesting of equity awards issued in connection with the DVS acquisition, which occurred prior to the second quarter of 2015 according to their vesting terms, and outside services costs of $0.2 million, partially offset by increases in compensation costs of $0.2 million due to higher headcount and project-related costs of $0.3 million.

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

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Selling, General and Administrative

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

Selling, general and administrative expense for the three months ended June 30, 2015 increased $2.6 million, or 14%, to $21.2 million, compared to $18.7 million for the three months ended June 30, 2014, primarily driven by increases in legal and other outside services costs of $1.9 million, higher headcount and compensation-related costs of $0.9 million, and increases in depreciation expenses of $0.3 million, partly offset by a decrease in marketing services and tradeshow expenses of $0.5 million and integration-related costs of $0.2 million. We expect selling, general and administrative expense to increase in future periods as we continue to grow our sales, technical support, marketing, and administrative headcount, support increased product sales, broaden our customer base, and incur additional costs to support our expanding global footprint and the overall growth in our business.

Interest Expense and Other Income and Expense, Net

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

	Three Months Ended June 30,	
	2015	2014
Interest expense	$(1,451)	$(1,415)
Other (expense) income, net	608	(18)
Total	$(843)	$(1,433)

On February 4, 2014, we closed an underwritten public offering of $201.3 million aggregate principal amount of our 2.75% Senior Convertible Notes due 2034, or the Notes. The Notes accrue interest at a rate of 2.75% per year, payable semi-annually in arrears on February 1 and August 1 of each year, commencing August 1, 2014. The Notes will mature on February 1, 2034, unless earlier converted, redeemed, or repurchased in accordance with the terms of the Notes.

Other income for the three months ended June 30, 2015 increased by $0.6 million compared to the three months ended June 30, 2014 primarily due to $0.6 million of income from revaluation of certain foreign currency denominated assets and liabilities due to strengthening of foreign currencies against the U.S. dollar during the second quarter of 2015, compared to the first quarter of 2015. There was no similar strengthening of foreign currencies in the second quarter of 2014.

Benefit from Income Taxes

We recorded a tax benefit of $0.3 million for the three months ended June 30, 2015. The tax benefit was primarily attributable to the amortization of our acquisition-related deferred tax liability, partially offset by tax provision from our foreign operations and provision for uncertain tax liabilities related to our foreign operations. The tax benefit of $1.1 million for the three months ended June 30, 2014 was primarily attributable to amortization of our acquisition-related deferred tax liability and income tax benefit from our foreign operations.

Comparison of the Six Months Ended June 30, 2015 and June 30, 2014

Total Revenue

Total revenue increased by $2.0 million, or 4%, to $55.3 million for the six months ended June 30, 2015, compared to $53.3 million for the six months ended June 30, 2014.

Product Revenue

Product revenue increased by $2.3 million, or 4%, to $55.2 million for the six months ended June 30, 2015, compared to $52.9 million for the six months ended June 30, 2014.

Instrument revenue increased by $2.8 million, or 9%, to $33.3 million, primarily driven by higher unit sales of our CyTOF systems, which includes the recently introduced Helios system; contributions from our new preparatory systems products, such as the Juno and the recently introduced Polaris systems; and to a lesser extent, increases in sales of our EP1 systems. These revenue

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increases were partially offset by decreases in unit sales of Biomark HD and C1 systems, as well as negative effects of foreign currency of $2.1million.

Consumables revenue decreased by $0.5 million, or 2%, to $21.9 million, represented by decreases in sales of our analytical IFCs, and to a lesser extent, decreases in sales of our assays. These decreases were partially offset by increases in sales of C1 IFCs; antibodies in line with increased sales of CyTOF systems; and reagents. In addition, negative impacts of foreign currency reduced consumables revenues by $1.3 million. Annualized IFC pull-through for our genomics analytical systems was below our historical range of $40,000 to $50,000 per system due to lower production genomics customer purchases, and we currently expect genomics analytical IFC pull-through to be between $25,000 and $35,000 per system per year. IFC pull-through for our genomics preparatory systems was within our expected range of $15,000 to $25,000 per system per year, and consumables pull-through for our proteomics analytical systems was within the historical range of $50,000 to $70,000 per system per year.

Grant Revenue

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

We did not receive any grant revenue for the six months ended June 30, 2015. Grant revenue was $0.2 million for the six months ended June 30, 2014.

Cost of Product Revenue

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

	Six months ended June 30,			
	2015		2014	
Cost of product revenue	$22,611		$18,659	
Product margin	59	%	65	%

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

Cost of product revenue increased by $4.0 million, or 21%, to $22.6 million for the six months ended June 30, 2015 from $18.7 million for the six months ended June 30, 2014. Cost of product revenue for the six months ended June 30, 2015 includes $5.6 million of amortization of acquired intangible assets resulting from our acquisition of DVS, an increase of $1.4 million when compared to the comparable period in 2014, partially offset by charges from inventory step-up expensed during 2014 related to the acquisition of approximately $0.7 million. Overall cost of product revenue as a percentage of related revenue was 41% and 35%, including 10.1 and 9.2 percentage points related to these charges, for the six months ended June 30, 2015 and 2014, respectively. Product margin declined 6 percentage points during the six months ended June 30, 2015 compared to the corresponding period in 2014 due to the impact of higher instrument manufacturing costs, driven by overall lower volume of production, and a change in sales mix. The margins were also impacted to a lesser extent by higher stock-based compensation expenses, higher warranty costs and increased royalty costs.

Operating Expenses

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

	Six months ended June 30,	
	2015	2014
Research and development	$20,080	$19,020
Selling, general and administrative	41,316	33,912
Total	$61,396	$52,932

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Research and Development

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

Research and development expense increased $1.1 million, or 6%, to $20.1 million for the six months ended June 30, 2015, compared to $19.0 million for the six months ended June 30, 2014, primarily due to increases in compensation costs of $1.7 million due to higher headcount, project related costs of $1.0 million and increased operating costs allocated of $0.6 million, partially offset by reduced stock-based compensation expenses of $1.9 million primarily due to the full vesting of equity awards issued in connection with the DVS acquisition, bonus expense of $0.3 million, and outside services costs of $0.3 million.

Selling, General and Administrative

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

Selling, general and administrative expense for the six months ended June 30, 2015 increased $7.4 million, or 22%, to $41.3 million, compared to $33.9 million for the six months ended June 30, 2014, primarily driven by higher headcount and compensation-related costs, including stock-based compensation expenses, of $3.6 million, increases in legal and other outside services costs of $3.4 million, increases in facilities and related costs of $0.7 million, and increases in depreciation and travel expenses of $0.5 million each, partly offset by decrease due to integration-related costs of $1.1 million incurred in the prior year and marketing services and tradeshows of $0.5 million.

Acquisition-Related Expenses

Acquisition-related expenses of $10.7 million incurred during the six months ended June 30, 2014 primarily included accelerated vesting of certain DVS restricted stock and stock options, and consulting, legal, and investment banking fees relating to our acquisition of DVS.

Interest Expense and Other Income and Expense, Net

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

	Six months ended June 30,	
	2015	2014
Interest expense	$(2,904)	$(2,441)
Other (expense) income, net	(512)	30
Total	$(3,416)	$(2,411)

On February 4, 2014, we closed an underwritten public offering of $201.3 million aggregate principal amount of our 2.75% Senior Convertible Notes due 2034, or the Notes. The Notes accrue interest at a rate of 2.75% per year, payable semi-annually in arrears on February 1 and August 1 of each year, commencing August 1, 2014. The Notes will mature on February 1, 2034, unless earlier converted, redeemed, or repurchased in accordance with the terms of the Notes.

Interest expense for the six months ended June 30, 2015 increased by $0.5 million compared to the six months ended June 30, 2014 due to accrual of interest under the terms of the Notes for a full first half of 2015, as compared to a partial comparable period in 2014.

Other expense for the six months ended June 30, 2015 increased by $0.5 million compared to the six months ended June 30, 2014 primarily due to $0.7 million of losses from revaluation of certain foreign currency denominated assets and liabilities due to strengthening of the U.S. dollar during the first six months of 2015 compared to 2014.

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Benefit from Income Taxes

We recorded a tax benefit of $0.9 million for the six months ended June 30, 2015. The tax benefit was primarily attributable to the amortization of our acquisition-related deferred tax liability, partially offset by tax provision and provision for uncertain tax liabilities related to our foreign operations. The tax benefit of $3.3 million for the six months ended June 30, 2014 was primarily attributable to the release of the valuation allowance associated with our California deferred tax assets upon recording the foreign and California deferred tax liabilities arising from the DVS acquisition and the deferred tax liabilities arising from amortization of acquired intangible assets.

Liquidity and Capital Resources

Sources of Liquidity

As of June 30, 2015, our principal sources of liquidity consisted of $23.7 million of cash and cash equivalents and $103.3 million of investments. As of June 30, 2015, our working capital excluding deferred revenue totaled $122.0 million.

The following table presents our cash flow summary for each period presented (in thousands):

	Six Months Ended June 30,	
	2015	2014
Cash flow summary		
Net cash used in operating activities		