UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

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: 001-39334

Progenity, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**27-3950390**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
4330 La Jolla Village Drive, Suite 200, San Diego, CA	**92122**
(Address of principal executive offices)	**(Zip Code)**

(855) 293-2639
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	PROG	The Nasdaq Global Market

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☒		

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

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

As of April 30, 2021, the registrant had 60,474,632 shares of common stock, par value $0.001 per share, outstanding.

Progenity, Inc.

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TRADEMARKS AND CERTAIN TERMS

In this Quarterly Report on Form 10-Q, "Progenity," "we," "us" and "our" refer to Progenity, Inc., and our wholly-owned subsidiaries on a consolidated basis, unless the context otherwise provides.

Progenity® is a registered service mark of Progenity. Any other brand names or trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective holders.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

PROGENITY, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 65,276	$ 92,076
Accounts receivable, net	13,206	12,682
Inventory	12,377	12,219
Prepaid expenses and other current assets	10,312	9,361
Total current assets	101,171	126,338
Property and equipment, net	17,377	17,842
Other assets	199	198
Goodwill	6,219	6,219
Other intangible assets, net	3,611	3,843
Total assets	$ 128,577	$ 154,440
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 15,625	$ 17,410
Accrued expenses and other current liabilities	53,783	54,677
Warrant liability	10,154	—
Current portion of mortgages payable	275	271
Current portion of capital lease obligations	225	312
Total current liabilities	80,062	72,670
Capital lease obligations, net of current portion	15	46
Mortgages payable, net of current portion	2,726	2,795
Convertible notes, net of unamortized discount of $9,296 and $9,614 as of March 31, 2021 and December 31, 2020, respectively	159,204	158,886
Embedded derivative liability	3,542	18,370
Other long-term liabilities	8,535	8,667
Total liabilities	$ 254,084	$ 261,434
Commitments and contingencies		
Stockholders' deficit:		
Common stock – $0.001 par value. 350,000,000 shares authorized as of March 31, 2021 and December 31, 2020; 63,903,974 and 59,287,331 shares issued as of March 31, 2021 and December 31, 2020, respectively; 60,340,365 and 55,772,303 shares outstanding as of March 31, 2021 and December 31, 2020, respectively	63	59
Additional paid-in capital	466,740	452,992
Accumulated deficit	(573,538)	(541,274)
Treasury stock – at cost; 3,563,609 and 3,515,028 shares of common stock as of March 31, 2021 and December 31, 2020, respectively	(18,772)	(18,771)
Total stockholders' deficit	(125,507)	(106,994)
Total liabilities and stockholders' deficit	$ 128,577	$ 154,440

See accompanying notes to unaudited condensed consolidated financial statements.

PROGENITY, INC.
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Revenues	$ 24,526	$ 16,828
Cost of sales	22,234	26,570
Gross profit (loss)	2,292	(9,742)
Operating expenses:		
Research and development	11,673	11,240
Selling and marketing	14,648	14,436
General and administrative	22,219	17,108
Total operating expenses	48,540	42,784
Loss from operations	(46,248)	(52,526)
Interest expense	(3,520)	(2,302)
Gain on warrant liability	2,650	—
Interest and other income (expense), net	14,854	(20)
Loss before income taxes	(32,264)	(54,848)
Income tax benefit	—	(37,696)
Net loss	$ (32,264)	$ (17,152)
Net loss per share, basic and diluted	$ (0.56)	$ (3.43)
Weighted average number of shares outstanding used in calculating net loss per share, basic and diluted	57,493,800	4,993,393

See accompanying notes to unaudited condensed consolidated financial statements.

PROGENITY, INC.
Condensed Consolidated Statements of Stockholders' Deficit
(In thousands, except share data)
(Unaudited)

	Common Stock		Series A and A-1 Preferred Stock		Series B Preferred Stock		Additional Paid-In	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Shares	Amount	Deficit
Balance at December 31, 2020	**59,287,331**	**$ 59**	**—**	**$ —**	**—**	**$ —**	**$ 452,992**	**$ (541,274)**	**(3,515,028)**	**$ (18,771)**	**$ (106,994)**
Issuance of common stock, net	4,370,629	4	—	—	—	—	11,258	—	—	—	11,262
Issuance of common stock upon exercise of options	71,284	—	—	—	—	—	88	—	—	—	88
Issuance of common stock upon vesting of restricted stock unit awards	174,730	—	—	—	—	—	(228)	—	(48,581)	(1)	(229)
Stock-based compensation expense	—	—	—	—	—	—	2,630	—	—	—	2,630
Net loss	—	—	—	—	—	—	—	(32,264)	—	—	(32,264)
Balance at March 31, 2021	**63,903,974**	**$ 63**	**—**	**$ —**	**—**	**$ —**	**$ 466,740**	**$ (573,538)**	**(3,563,609)**	**$ (18,772)**	**$ (125,507)**

PROGENITY, INC.
Condensed Consolidated Statements of Stockholders' Deficit
(In thousands, except share data)
(Unaudited)

	Common Stock		Series A and A-1 Preferred Stock		Series B Preferred Stock		Additional Paid-In	Accumulated	Treasury Stock		Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Shares	Amount	Deficit
Balance at December 31, 2019	**8,451,415**	**$ 9**	**4,120,000**	**$ 4**	**101,867,405**	**$ 102**	**$ 283,260**	**$ (348,478)**	**(3,474,572)**	**$ (18,771)**	**$ (83,874)**
Issuance of common stock upon exercise of options	56,729	—	—	—	—	—	103	—	—	—	103
Issuance of Series B Preferred Stock, net of issuance cost	—	—	—	—	6,033,796	6	14,066	—	—	—	14,072
Stock-based compensation expense	—	—	—	—	—	—	2,057	—	—	—	2,057
Net loss	—	—	—	—	—	—	—	(17,152)	—	—	(17,152)
Balance at March 31, 2020	**8,508,144**	**$ 9**	**4,120,000**	**$ 4**	**107,901,201**	**$ 108**	**$ 299,486**	**$ (365,630)**	**(3,474,572)**	**$ (18,771)**	**$ (84,794)**

See accompanying notes to unaudited condensed consolidated financial statements.

PROGENITY, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Operating Activities:		
Net loss	$ (32,264)	$ (17,152)
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash revenue reserve	187	—
Depreciation and amortization	1,249	1,701
Stock-based compensation expense	2,630	2,057
Amortization of debt discount	386	—
Inventory write-down	178	(27)
Loss on disposal of property and equipment	—	18
Change in fair value of derivative liability	(14,828)	—
Change in fair value of warrant liability	(2,650)	—
Changes in operating assets and liabilities:		
Accounts receivable, net	(525)	6,550
Inventory	(336)	984
Income tax receivable	—	(37,662)
Prepaid expenses and other current assets	(894)	460
Accounts payables	(2,214)	727
Accrued expenses and other liabilities	579	(25,405)
Other long-term liabilities	(62)	36,863
Net cash used in operating activities	(48,564)	(30,886)
Investing Activities:		
Purchases of property and equipment	(463)	(1,094)
Net cash used in investing activities	(463)	(1,094)
Financing Activities:		
Proceeds from issuance of common stock, net	11,631	103
Proceeds from issuance of Series B Preferred Stock, net	—	11,374
Proceeds from issuance of common stock warrants	12,804	—
Payment of deferred offering costs	(75)	(616)
Payments for insurance financing	(1,950)	—
Principal payments on mortgages payable	(66)	(62)
Principal payments on capital lease obligations	(117)	(215)
Net cash provided by financing activities	22,227	10,584
Net decrease in cash and cash equivalents	(26,800)	(21,396)
Cash and cash equivalents at beginning of period	92,076	33,042
Cash and cash equivalents at end of period	$ 65,276	$ 11,646

See accompanying notes to unaudited condensed consolidated financial statements.

PROGENITY, INC.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ (41)	$ (51)
Cash paid for income taxes	(7)	(5)
Supplemental schedule of non-cash investing and financing activities:		
Issuance of preferred stock in settlement of interest payable	—	1,801
Issuance of preferred stock for settlement of deferred issuance costs	—	897
Equity offering costs incurred but not paid	281	682
Issuance of stock options in settlement of accrued bonuses	—	754
Purchases of property and equipment in accounts payable	89	278
Warrant issuance costs incurred but not paid	148	—

See accompanying notes to unaudited condensed consolidated financial statements.

1. Organization and Description of Business

Progenity, Inc. (the "Company" or "Progenity"), a Delaware corporation, commenced operations in 2010 with its corporate office located in San Diego, California. Progenity's primary operations include a licensed Clinical License Improvement Amendment and College of American Pathologists certified laboratory located in Michigan specializing in the molecular testing markets serving women's health providers in the obstetric, gynecological, fertility, and maternal fetal medicine specialty areas in the United States.

The Company has expertise in the national reference laboratory, clinical genetics, laboratory molecular testing, and biotechnology markets. Distribution is managed by a dedicated women's health physician sales force and a field operations team who support all logistical functions in receiving clinical samples to the laboratory for analysis. The Company's core business is focused on the prenatal carrier screening and noninvasive prenatal test market, targeting preconception planning, and routine pregnancy management for genetic disease risk assessment. Through its affiliation with Mattison Pathology, LLP ("Mattison"), a Texas limited liability partnership doing business as Avero Diagnostics ("Avero"), located in Lubbock and Dallas, Texas, the Company's operations have expanded to provide anatomic and molecular pathology testing products in the United States.

Liquidity

As of March 31, 2021, the Company had cash and cash equivalents of $65.3 million and an accumulated deficit of $573.5 million. For the three months ended March 31, 2021, the Company reported a net loss of $32.3 million and cash used in operating activities of $48.6 million. The Company's primary sources of capital have historically been the sale of common stock, private placements of preferred stock and incurrence of debt. As of March 31, 2021, the Company had $159.2 million of Convertible Notes outstanding (see Note 7), and mortgages outstanding of $3.0 million (see Note 9). Management does not believe that the current available cash and cash equivalents will be sufficient to fund the Company's planned expenditures and meet its obligations for at least 12 months following the financial statement issuance date without raising additional funding. As a result, there is substantial doubt about the Company's ability to continue as a going concern for 12 months following the issuance date of the condensed consolidated financial statements for the three months ended March 31, 2021.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional funding. Management believes that the Company's liquidity position provides sufficient runway to achieve critical research and development pipeline milestones and show continued progress in the molecular testing activities into mid-2021. Management intends to raise additional capital through equity offerings and/or debt financings, or from other potential sources of liquidity, which may include new collaborations, licensing or other commercial agreements for one or more of the Company's research programs or patent portfolios. Adequate funding, if needed, may not be available to the Company on acceptable terms, or at all. The Company's ability to raise additional funds may be adversely impacted by potential worsening global economic conditions and the recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from the ongoing COVID-19 pandemic. If the Company is unable to raise capital when needed or on attractive terms, it would be forced to delay, reduce, or eliminate its research and development programs or other operations. If any of these events occur, the Company's ability to achieve its operational goals would be adversely affected.

Uncertainties Related to the COVID-19 Pandemic

The ongoing COVID -19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The Company has been materially and negatively affected by the COVID-19 pandemic; however, the extent of the impact of the COVID-19 pandemic on the Company's operational and financial performance, including its ability to execute its business strategies and initiatives in the expected time frame, will depend on future developments, including the duration and spread of the pandemic and related restrictions on travel and transports, all of which are uncertain and cannot be predicted. The Company could be further negatively affected by the widespread outbreak of an illness or any other communicable disease, or any other public health crisis that results in economic and trade disruptions, including the disruption of global supply chains. An extended period of global supply chain and economic disruption could materially affect the Company's business, results of operations, access to sources of liquidity and financial condition.

The estimates used for, but not limited to, determining the amount to be collected for accounts receivable, fair value of long-lived assets, and fair value of goodwill could be impacted by the pandemic. While the full impact of COVID-19 is unknown at this time, the Company has made appropriate estimates based on the facts and circumstances available as of the reporting date. These estimates may change as new events occur and additional information is obtained.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company's condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. These financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the Securities and Exchange Commission, ("SEC"), from which management derived the Company's condensed consolidated balance sheet as of December 31, 2020. The condensed consolidated financial statements include the accounts of Progenity, Inc., its wholly owned subsidiaries, and an affiliated professional partnership with Avero with respect to which the Company currently has a specific management arrangement. The Company has determined that Avero is a variable interest entity and that the Company is the primary beneficiary resulting in the consolidation of Avero as required by the accounting guidance for consolidation (see Note 3). All significant intercompany balances and transactions have been eliminated in consolidation.

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of March 31, 2021, the statements of operations and the statements of stockholders' deficit for the three months ended March 31, 2021 and 2020 and the statements of cash flows for the three months ended March 31, 2021 and 2020 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited annual financial statements and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, that are necessary for the fair statement of the Company's financial position as of March 31, 2021, and the results of its operations and its cash flows for the three months ended March 31, 2021 and 2020. The financial data and other information disclosed in these notes related to the three months ended March 31, 2021 and 2020 are also unaudited. The results for the three months ended March 31, 2021 are not necessarily indicative of results to be expected for the year ending December 31, 2021, any other interim periods, or any future year or period, particularly in light of the COVID-19 pandemic and its impact on domestic and global economies. The balance sheet as of December 31, 2020 included herein was derived from the audited financial statements as of that date. Certain disclosures have been condensed or omitted from the interim financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include the estimate of variable consideration in connection with the recognition of revenue, the valuation of stock options, the valuation of goodwill and intangible assets, the valuation of derivative liability associated with the Convertible Notes, accrual for reimbursement claims and settlements, the valuation of the warrant liability, assessing future tax exposure and the realization of deferred tax assets, the useful lives and the recoverability of property and equipment. The Company bases these estimates on historical and anticipated results, trends, and various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenues and expenses that are not readily apparent from other sources. Actual results could differ from those estimates and assumptions.

Revenue Recognition

Revenue is recognized in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). In accordance with ASC 606, the Company follows a five-step process to recognize revenues: 1) identify the contract with the customer, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations and 5) recognize revenues when the performance obligations are satisfied.

Revenue is primarily derived from providing molecular testing products, which are reimbursed through arrangements with third-party payors, laboratory distribution partners, and amounts from individual patients. Third-party payors include commercial payors, such as health insurance companies, health maintenance organizations and government health benefit programs, such as Medicare and Medicaid. The Company's contracts generally contain a single performance obligation, which is the delivery of the test results, and the Company satisfies its performance obligation at a point in time upon the delivery of the results, which then triggers the billing for the product. The amount of revenue recognized reflects the amount of consideration the Company expects to be entitled to (the "transaction price") and considers the effects of variable consideration. Revenue is recognized when control of the promised product is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products.

The Company applies the following practical expedients and exemptions:

- Incremental costs incurred to obtain a contract are expensed as incurred because the related amortization period would have been one year or less. The costs are included in selling and marketing expenses.
- No adjustments to amounts of promised consideration are made for the effects of a significant financing component because the Company expects, at contract inception, that the period between the transfer of a promised good or service and customer payment for that good or service will be one year or less.

Payor Concentration

The Company relies upon reimbursements from third-party government payors and private-payor insurance companies to collect accounts receivable. The Company's significant third-party payors and their related accounts receivable balances and revenues as a percentage of total accounts receivable balances and revenues are as follows:

	Percentage of Accounts Receivable	
	March 31, 2021	December 31, 2020
Blue Shield of Texas	19.5%	17.8%
Government Health Benefits Programs	23.9%	26.2%
Aetna	5.2%	4.0%
United Healthcare	5.8%	6.6%

	Percentage of Revenue	
	Three Months Ended March 31,	
	2021	2020
Blue Shield of Texas	22.7%	16.6%
Government Health Benefits Programs	23.4%	18.2%
Aetna	7.7%	7.6%
United Healthcare	6.8%	20.7%

Accounts Receivable

Accounts receivable is recorded at the transaction price and considers the effects of variable consideration. The total consideration the Company expects to collect is an estimate and may be fixed or variable. Variable consideration includes reimbursement from third-party payors, laboratory distribution partners, and amounts from individual patients, and is adjusted for disallowed cases, discounts, and refunds using the expected value approach. The Company monitors these estimates at each reporting period based on actual cash collections in order to assess whether a revision to the estimate is required.

Embedded Derivative Related to Convertible Notes

During 2020, the Company issued Convertible Notes with an embedded derivative that is required to be bifurcated from their host contract and remeasured to fair value at each balance sheet date. Any resulting gain or loss related to the change in the fair value of the embedded derivative is recorded to other income (expense), net on the consolidated statements of operations. Changes in the Company's assumptions, such as the Company's stock price and volatility of common stock, could result in material changes in the valuation in future periods.

Stock-Based Compensation

Stock-based compensation related to stock options, restricted stock units ("RSUs") and the 2020 Employee Stock Purchase Plan ("ESPP") awards granted to the Company's employees is measured at the grant date based on the fair value of the award. The fair value is recognized as expense over the requisite service period, which is generally the vesting period of the respective awards. Compensation related to service-based awards is recognized starting on the grant date on a straight-line basis over the vesting period, which is typically four years. For the ESPP, the requisite service period is generally the period of time from the offering date to the purchase date. The Company accounts for the forfeitures in the period in which they occur. The fair value of each restricted stock unit award is estimated based on the market price of the underlying common stock on the date of the grant.

The determination of the fair value of each stock award using the option-pricing model is affected by the Company's assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the fair value of

the common stock at the date of grant, the expected term of the awards, the expected stock price volatility over the term of the awards, risk-free interest rate, and dividend rate. The Company's assumptions with respect to these variables are as follows:

Fair Value of Common Stock—Prior to the IPO, the Company's common stock was not publicly traded, therefore the Company estimated the fair value of its common stock. Following the IPO, the fair value of the Company's common stock for awards with service-based vesting is the closing selling price per share of its common stock as reported on the Nasdaq Global Market on the date of grant or other relevant determination date.

Expected Term—The expected term represents the period that the stock-based awards are expected to be outstanding. The Company determines the expected term using the simplified method. The simplified method deems the term to be the average of the time-to-vesting and the contractual life of the options. For stock options granted to non-employees, the expected term equals the remaining contractual term of the option from the vesting date. For the ESPP, the expected term is the period of time from the offering date to the purchase date.

Expected Volatility—Given the limited period of time the Company's stock has been traded in an active market, the expected volatility is estimated by taking the average historical price volatility for industry peers, consisting of several public companies in the Company's industry that are similar in size, stage, or financial leverage, over a period of time commensurate with to the expected term of the awards.

Risk-Free Interest Rate—The risk-free interest rate is calculated using the average of the published interest rates of U.S. Treasury zero-coupon issues with maturities that are commensurate with the expected term.

Dividend Rate—The dividend yield assumption is zero, as the Company has no plans to make dividend payments.

Net Loss Per Share

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. The Company considers all series of preferred stock to be participating securities as the holders of such stock are entitled to receive non-cumulative dividends on an as-converted basis in the event that a dividend is paid on common stock. Under the two-class method, the net loss attributable to common stockholders is not allocated to the preferred stock as the holders of preferred stock do not have a contractual obligation to share in the Company's losses. Under the two-class method, net income is attributed to common stockholders and participating securities based on their participation rights. Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Net loss attributable to common stockholders is calculated by adjusting net loss with dividends to preferred stockholders, if any. As the Company has reported net losses for all periods presented, all potentially dilutive securities are antidilutive and, accordingly, basic net loss per share equals diluted net loss per share.

Comprehensive Loss

The Company did not have any other comprehensive income or loss for any of the periods presented, and therefore comprehensive loss was the same as the Company's net loss.

Recent Accounting Pronouncements Adopted

In December 2019, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"), which simplified income tax accounting in various areas. The Company has evaluated and adopted ASU 2019-12 on January 1, 2021, which did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes FASB ASC Topic 840, *Leases (Topic 840)*, and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method for finance leases or on a straight-line basis over the term of the lease for operating leases. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, which further defers the effective date for certain entities. As a result, the ASU is now effective for EGCs for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after

December 15, 2022. If Company maintains EGC status, it will adopt the new standard in the fourth quarter of 2022 using the modified retrospective method, under which the Company will apply the new lease standard to existing and new leases as of January 1, 2022, but prior periods will not be restated and will continue to be reported under Topic 840 guidance in effect during those periods. The Company plans to adopt the new lease standard effective January 1, 2022, using the effective date method with the cumulative effect of the change, if any, reflected in retained earnings as of January 1, 2022. The Company plans to elect the package of practical expedients available in the new lease standard, allowing it not to reassess: (a) whether expired or existing contracts contain leases under the new definition of a lease; (b) lease classification for expired or existing leases; and (c) whether previously capitalized initial direct costs would qualify for capitalization under the new lease standard.

The Company continues to monitor FASB activity to assess certain interpretative issues and the associated implementation of the new standard and is in the process of reviewing its lease arrangements, including property, equipment and vehicle leases. The Company is not yet able to estimate the anticipated impact to its consolidated financial statements from the implementation of the new standard as it continues to interpret the principles of the new standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses*, which requires the measurement of expected credit losses for financial instruments carried at amortized cost, such as accounts receivable, held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of this standard is 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. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financing Instruments–Credit Losses*, which included an amendment of the effective date. The standard is effective for the Company for annual reporting periods beginning after December 15, 2022. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)-Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for convertible instruments, amends the guidance on derivative scope exceptions for contracts in an entity's own equity, and modifies the guidance on diluted earnings per share calculations as a result of these changes. The standard is effective for the Company for annual reporting periods beginning after December 15, 2023. The Company is currently evaluating the impact the adoption of this standard may have on its consolidated financial statements.

3. Variable Interest Entity

In June 2015, the Company entered into a series of agreements with Avero. The Company entered into a purchase agreement to acquire certain assets from Mattison used in the operations of Avero. The purchase agreement was accounted for under the acquisition method in accordance with the provisions of ASC Topic 805, *Business Combinations*. The Company entered into a nominee agreement which provides it with the right, but not the obligation, to purchase, or to designate a person(s) to purchase, the stock of Avero at any time for a nominal amount.

The Company also entered into a management services arrangement that authorizes the Company to perform the management services in the manner that it deems reasonably appropriate to meet the day-to-day business needs of Avero. The Company’s management services include funding ongoing operational needs, directing activities related to contract negotiation, billing, human resources, and legal and administrative matters and processes, among others. In exchange for the management services provided, the Company is entitled to receive an annual management fee equal to the amount of the net operating income of Avero. The term of the agreement with Avero is 10 years, subject to automatic renewals. The agreement can be terminated by either party with a 90-day notice before the end of the term.

Through the management services arrangement with Avero, the Company has (1) the power to direct the activities of Avero that most significantly impact its economic performance, and (2) the obligation to absorb losses of Avero or the right to receive benefits from Avero that could potentially be significant to Avero. Based on these determinations, the Company has determined that Avero is a variable interest entity and that the Company is the primary beneficiary. The Company does not own any equity interest in Avero; however, as these agreements provide the Company the controlling financial interest in Avero, the Company consolidates Avero’s balances and activities within its consolidated financial statements.

In December 2018, Avero entered into a settlement agreement with Cigna (the “Cigna settlement obligation”) whereby Avero agreed to pay an aggregate amount of $12.0 million with an upfront payment of $6.0 million and the remaining $6.0 million was paid over 24 months. The Company provided financial support to Avero in the amount of $0.8 million during the three months ended March 31, 2020, related to the Cigna settlement obligation, which was fully settled as of December 31, 2020. The Company did not provide any additional financial support to Avero during the three months ended March 31, 2021 and 2020, other than the Cigna settlement obligation and agreed upon management services.

The following table presents the assets and liabilities of Avero that are included in the Company's condensed consolidated balance sheets as of March 31, 2021 and December 31, 2020 (in thousands). The creditors of Avero have no recourse to the general credit of the Company, with the exception of $1.7 million and $1.7 million in mortgage payable guaranteed by the Company as of March 31, 2021 and December 31, 2020, respectively (see Note 9). The assets and liabilities exclude intercompany balances that eliminate in consolidation:

	March 31, 2021	December 31, 2020
Assets of Avero that can only be used to settle obligations of Avero		
Cash and cash equivalents	$ 1,162	$ 556
Accounts receivable, net	6,333	6,047
Inventory	3,310	3,382
Prepaid expenses and other current assets	127	1,254
Property and equipment, net	5,258	5,436
Other assets	30	30
Goodwill	6,219	6,219
Other intangible assets, net	3,611	3,843
Total assets of Avero that can only be used to settle obligations of Avero	$ 26,050	$ 26,767
Liabilities of Avero		
Accounts payable	$ 4,516	$ 4,722
Accrued expenses and other accrued liabilities	3,300	3,472
Current portion of capital lease obligations	39	46
Current portion of mortgage payable	200	199
Capital lease obligations, net of current portion	—	4
Mortgage payable, net of current portion	1,469	1,520
Other long-term liabilities	367	428
Total liabilities of Avero	$ 9,891	$ 10,391

4. Revenues

Revenue is derived from contracts with healthcare insurers, government payors, laboratory partners and patients in connection with sales of prenatal genetic, anatomic or molecular pathology tests. The Company enters into contracts with healthcare insurers related to tests provided to patients who have health insurance coverage. Insurance carriers are considered third-party payors on behalf of the patients, and the patients who receive genetic, anatomic or molecular pathology test products are considered the customers. Tests may be billed to insurance carriers, patients, or a combination of insurance carriers and patients. The Company also sells tests to laboratory partners, which are also considered to be customers. The Company's test volumes began to decrease in the second half of March 2020 as a result of the COVID-19 pandemic spreading in the United States and resulting limitations and reordering of priorities across the U.S. healthcare system. The Company expects test volumes to continue to be adversely affected by COVID-19 and cannot predict when volumes will return to normal.

In accordance with ASC 606, a performance obligation represents a promise in a contract to transfer a distinct good or service to a customer and the consideration should be allocated to each distinct performance obligation and recognized as revenue when or as the performance obligation is satisfied. The Company has evaluated its contracts with healthcare insurers, government payors, laboratory partners and patients and identified a single performance obligation in those contracts, the delivery of a test result. The Company satisfies its performance obligation at a point in time upon the delivery of the test result, at which point the Company can bill for its products. The amount of revenue recognized reflects the transaction price and considers the effects of variable consideration, which is discussed below.

Once the Company satisfies its performance obligations upon delivery of a test result and bills for the product, the timing of the collection of payments may vary based on the payment practices of the third-party payor. The Company bills patients directly for co-pays and deductibles that they are responsible for and also bills patients directly in cases where the customer does not have insurance.

The Company has established an accrual for refunds of payments previously made by healthcare insurers based on historical experience and executed settlement agreements with healthcare insurers. The refunds are accounted for as reductions in revenues in the statement of operations as an element of variable consideration. In the United States, the American Medical Association ("AMA") generally assigns specific billing codes for laboratory tests under a coding system known as Current Procedure Terminology ("CPT"), which the Company and its ordering healthcare providers must use to bill and receive reimbursement for molecular tests. Effective January 1, 2019, the AMA issued a CPT code for genetic testing for severe inherited conditions that includes sequencing of at least 15 genes, which affects potential reimbursement for the Company's Preparent expanded carrier screening tests. As part of the Company's

work to improve its compliance program, including its internal auditing and monitoring function, the Company commissioned a third-party review of its billing processes. In connection with that audit, the Company identified that it had not effectively transitioned to the implementation of the new CPT code in 2019, and as a result the Company received an overpayment of approximately $10.3 million from government payors during 2019 and early 2020. As of December 31, 2020, the Company settled all existing obligations to the relevant government programs as due and will continue to settle any future obligation as they arise.

The transaction price is an estimate and may be fixed or variable. Variable consideration includes reimbursement from healthcare insurers, government payors, and patients and is adjusted for estimates of disallowed cases, discounts, and refunds using the expected value approach. Tests billed to healthcare insurers and directly to patients can take up to nine months to collect and the Company may be paid less than the full amount billed or not paid at all. For insurance carriers and government payors, management utilizes the expected value method using a portfolio of relevant historical data for payors with similar reimbursement characteristics. The portfolio estimate is developed using historical reimbursement data from payors and patients, as well as known current reimbursement trends not reflected in the historical data. Such variable consideration is included in the transaction price only to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainties with respect to the amount are resolved. The Company monitors these estimates at each reporting period based on actual cash collections and the status of settlement agreements with third-party payors, in order to assess whether a revision to the estimate is required. Both the initial estimate and any subsequent revision to the estimate contain uncertainty and require the use of judgment in the estimation of the transaction price and application of the constraint for variable consideration. If actual results in the future vary from the Company's estimates, the Company will adjust these estimates, which would affect revenue and earnings in the period such variances become known. The consideration expected from laboratory partners is generally a fixed amount.

The Company has established an accrual for refunds of payments previously made by healthcare insurers based on historical experience and executed settlement agreements with healthcare insurers. The refunds are accounted for as reductions in revenues in the statement of operations as an element of variable consideration.

The Company periodically updates its estimate of the variable consideration recognized for previously delivered performance obligations. These updates resulted in an additional $2.4 million of revenue reported for the three months ended March 31, 2021, and a reduction of $12.8 million of revenue reported for the three months ended March 31, 2020. These amounts included (i) adjustments for actual collections versus estimated variable consideration as of the beginning of the reporting period and (ii) cash collections and the related recognition of revenue in the current period for tests delivered in prior periods due to the release of the constraint on variable consideration, offset by (iii) reductions in revenue for the accrual for reimbursement claims and settlements described in Note 10.

Disaggregation of Revenues

The following table shows a further disaggregation of revenues by payor type (in thousands):

	Three Months Ended March 31,	
	2021	2020
Commercial third-party payors	$ 16,453	$ 21,562
Government health benefit programs(1)	5,726	(6,143)
Patient/laboratory distribution partners	2,347	1,409
Total revenues	$ 24,526	$ 16,828

(1) The revenue amounts include accruals for reimbursement claims and settlements included in the estimates of variable consideration recorded during the three months ended March 31, 2021 and 2020. Revenue recognized reflect the effects of variable consideration, and include adjustments for estimates of disallowed cases, discounts, and refunds. The variable consideration includes reductions in revenues for the accrual for reimbursement claims and settlements.

5. Balance Sheet Components

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Prepaid expenses	$ 9,629	$ 9,116
Other current assets	683	245
Total	$ 10,312	$ 9,361

Property and Equipment, Net

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

	March 31, 2021	December 31, 2020
Computers and software	$ 14,738	$ 14,591
Building and leasehold improvements	9,462	9,458
Laboratory equipment	7,791	7,678
Furniture, fixtures, and office equipment	1,686	1,686
Construction in progress	3,021	2,784
Land	1,091	1,091
Total property and equipment	37,789	37,288
Less accumulated depreciation and amortization	(20,412)	(19,446)
Property and equipment, net	$ 17,377	$ 17,842

Capital leases included in property and equipment, net consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Capital leases	$ 2,467	$ 2,467
Less accumulated depreciation and amortization	(2,055)	(1,954)
Capital leases included in property and equipment, net	$ 412	$ 513

Depreciation expense was $1.1 million and $1.0 million for the three months ended March 31, 2021 and 2020, respectively.

Intangible Assets, Net

Intangible assets, net consisted of the following (in thousands):

March 31, 2021	Cost	Accumulated amortization	Net
Payor relationships	$ 7,230	$ (4,218)	$ 3,012
Trade names	1,410	(822)	588
Noncompete agreements	384	(373)	11
Intangible assets, net	$ 9,024	$ (5,413)	$ 3,611

December 31, 2020	Cost	Accumulated amortization	Net
Payor relationships	$ 7,230	$ (4,037)	$ 3,193
Trade names	1,410	(787)	623
Noncompete agreements	384	(357)	27
Intangible assets, net	$ 9,024	$ (5,181)	$ 3,843

Amortization expense of intangible assets was $0.2 million and $0.2 million for the three months ended March 31, 2021 and 2020, respectively.

The future amortization of intangible assets at March 31, 2021 was (in thousands):

Year ending December 31,	
Remainder of 2021	$ 659
2022	864
2023	864
2024	864
2025	360
Thereafter	—
Total future amortization of intangible assets	$ 3,611

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	March 31, 2021	December 31, 2020
Accrual for reimbursement claims and settlements, current	$ 28,047	$ 30,487
Commission and bonus	3,823	4,619
Vacation and payroll benefits	11,408	8,896
Accrued professional services	2,263	3,385
Accrued interest	3,947	855
Contract liabilities	211	378
Other	4,084	6,057
Total	$ 53,783	$ 54,677

Other Long-term Liabilities

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

	March 31, 2021	December 31, 2020
Accrual for reimbursement claims and settlements, net of current portion	$ 7,053	$ 7,053
Other	1,482	1,614
Total	$ 8,535	$ 8,667

6. Fair Value Measurements

The Company's financial assets and liabilities carried at fair value are comprised of investment assets that include money market funds. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date.

The authoritative guidance establishes a three-level valuation hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether such inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the reporting entity. The three-level hierarchy for the inputs to valuation techniques is summarized as follows:

Level 1 - Quoted prices in active markets for identical assets and liabilities that the Company has the ability to access.

Level 2 - Observable market-based inputs or unobservable inputs that are corroborated by market data, such as quoted prices, interest rates, and yield curves.

Level 3 - Inputs that are unobservable data points that are not corroborated by market data.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The following table presents information about the Company's assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in thousands):

	Quoted Prices for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2021			
Money market funds(1)	$ 60,575	$ —	$ —
Embedded derivative liability	—	—	3,542
Warrant liability	—	—	10,154
December 31, 2020			
Money market funds(1)	$ 90,254	$ —	$ —
Embedded derivative liability	—	—	18,370

(1) Included in cash and cash equivalents in the accompanying condensed consolidated balance sheets.

The Company's policy is to recognize transfers between levels at the end of the reporting period. There were no significant transfers between Level 1, Level 2, and Level 3 during the three months ended March 31, 2021 and 2020.

Fair Value of Financial Instruments

The carrying value of the Company's accounts receivable, accounts payable, and accrued expenses and other current liabilities are considered to be representative of their respective fair values because of their short-term nature.

The carrying value of the Company's mortgages payable approximates their estimated fair value because the instruments bear interest at rates and have terms that are comparable to those available to the Company for similar loan instruments at March 31, 2021 and December 31, 2020.

The Company's Level 3 liabilities consist of the embedded derivative liability associated with the Company's convertible senior notes (the "Convertible Notes") and the warrant liability resulting from the February 2021 issuance of warrants, as described in Note 11. For the warrant liability, the Company uses the Black-Scholes Model to value the Level 3 warrant liability at inception and on subsequent valuation dates. This model incorporates transaction details such as the Company's stock price, contractual terms, maturity, risk free rates, as well as volatility. The significant unobservable input for the Level 3 warrant liability includes volatility. Given the limited period of time the Company's stock has been traded in an active market, the expected volatility is estimated by taking the average historical price volatility for industry peers, consisting of several public companies in the Company's industry that are similar in size, stage, or financial leverage, over a period of time commensurate to the expected term of the warrants. At March 31, 2021, the fair value of warrant liability was estimated using the Black-Scholes Model with the following assumptions: expected term of 4.91 years, stock price of $4.76, risk free rate of 0.92%, and volatility of 69.7%.

The carrying value of the Company's Convertible Notes does not approximate its fair value because the carrying value of the Convertible Notes reflects the balance of unamortized discount related to the derivative liability associated with the value of conversion feature assessed at inception. The carrying value and the fair value of the Company's Convertible Notes, net of discount, was $159.2 million at March 31, 2021. The Company periodically assesses the fair value of the conversion feature related to the Convertible Note. The conversion feature was bifurcated and recorded as an embedded derivative liability with a corresponding discount at the date of issuance that is netted against the principal amount of the Convertible Notes. The Company utilizes a Monte Carlo simulation method to determine the fair value of the conversion feature, which utilizes inputs including the common stock price, volatility of common stock, the risk-free interest rate and the probability of conversion to common shares at the conversion rate in the event of a major transaction (e.g. a change in control). Due to the use of significant unobservable inputs, the overall fair value measurement of the conversion feature is classified as Level 3. Based on unadjusted quoted prices in active market obtained from third-party pricing services, the Company determined the fair value of the Convertible Notes was $250.2 million and $194.6 million as of December 31, 2020 and March 31, 2021, respectively.

7. Convertible Notes

In December 2020, the Company issued a total of $168.5 million principal amount of its Convertible Notes in a private offering of the Convertible Notes pursuant to Rule 144A under the Securities Act. The Convertible Notes were issued pursuant to, and are governed by, an indenture, dated as of December 7, 2020, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Indenture"). The Convertible Notes are due on December 1, 2025, unless earlier repurchased,

redeemed or converted, and accrue interest at a rate per annum equal to 7.25% payable semi-annually in arrears on June 1 and December 1 of each year, with the initial payment on June 1, 2021. During the three months ended March 31, 2021, the Company recognized interest expense on the Convertible Notes of $3.1 million.

At any time, noteholders may convert their Convertible Notes at their option into shares of the Company's common stock, together, if applicable, with cash in lieu of any fractional share, at the then-applicable conversion rate. The initial conversion rate is 278.0094 shares of common stock per $1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately $3.60 per share of common stock. Noteholders that convert their Convertible Notes before December 1, 2022 will, in certain circumstances, be entitled to an additional cash payment representing the present value of any remaining interest payments on the Convertible Notes through December 1, 2022. The conversion rate and conversion price are subject to customary adjustments upon the occurrence of certain dilutive events. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Convertible Notes are redeemable, in whole and not in part, at the Company's option at any time on or after December 1, 2023, at a cash redemption price equal to the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the Company's common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (ii) the trading day immediately before the date the Company sends such notice. In addition, calling the Convertible Notes will constitute a Make-Whole Fundamental Change, which will result in an increase to the conversion rate in certain circumstances for a specified period of time.

The Convertible Notes have customary provision relating to the occurrence of "Events of Default" (as defined in the Indenture), which include the following: (i) certain payment defaults on the Convertible Notes (which, in the case of a default in the payment of interest on the Convertible Notes, will be subject to a 30-day cure period); (ii) the Company's failure to send certain notices under the Indenture within specified periods of time; (iii) the Company's failure to comply with certain covenants in the Indenture relating to the Company's ability to consolidate with or merge with or into, or sell, lease or otherwise transfer, in one transaction or a series of transactions, all or substantially all of the assets of the Company and its subsidiaries, taken as a whole, to another person; (iv) a default by the Company in its other obligations or agreements under the Indenture or the Convertible Notes if such default is not cured or waived within 60 days after notice is given in accordance with the Indenture; (v) certain defaults by the Company or any of its subsidiaries with respect to indebtedness for borrowed money of at least $7,500,000; (vi) the rendering of certain judgments against the Company or any of its subsidiaries for the payment of at least $7,500,000, where such judgments are not discharged or stayed within 60 days after the date on which the right to appeal has expired or on which all rights to appeal have been extinguished; and (vii) certain events of bankruptcy, insolvency and reorganization involving the Company or any of the Company's significant subsidiaries. As of March 31, 2021 and December 31, 2020, the Company was in compliance with all such covenants.

The Convertible Notes have a conversion option which was required to be bifurcated upon issuance and then periodically remeasured to fair value separately as an embedded derivative. The conversion option includes additional interest payments payable to the noteholders if converted prior to December 1, 2022. The conversion feature was bifurcated as recorded separately as an embedded derivative as (1) the conversion feature is not clearly and closely related to the debt instrument and is not considered to be indexed to the Company's equity, (2) the conversion feature standing alone meets the definition of a derivative, and (3) the Convertible Notes are not remeasured at fair value each reporting period with changes in fair value recorded in the consolidated statement of operations.

As of March 31, 2021 and December 31, 2020, the fair value of the derivative liability was $3.5 million and $18.4 million, respectively. The change in the fair value of the derivative liability of $14.9 million is included in interest and other income (expense), net in the accompanying condensed consolidated statement of operations for the three months ended March 31, 2021. As of March 31, 2021 and December 31, 2020, the unamortized debt discount was $9.3 million and $9.6 million, respectively. The Company amortizes the debt discount using the effective interest method over the term of the Convertible Notes, at a resulting effective interest rate of approximately 8.7%. For the three months ended March 31, 2021, the amortization of the Convertible Notes debt discount was $0.4 million, and was included in interest expense in the condensed consolidated statements of operations.

8. Related Party Transactions

On October 27, 2017, the Company entered into a Credit and Security Agreement and a Series B Convertible Preferred Stock Purchase Agreement with a private equity firm (the "2017 Transaction"). The 2017 Transaction provided for the 2017 Term Loan, the issuance of Series B Preferred Stock (the "Series B Preferred Stock"), and the issuance of a warrant to purchase Series B Preferred Stock (the "Series B Preferred Stock Purchase Warrant"). The 2017 Term Loan accrued interest at a rate per annum equal to 9.5% and was due October 27, 2022.

The 2017 Term Loan contained customary covenants, including a requirement to maintain a minimum unrestricted cash balance at all times of at least $5.0 million, and was secured by all tangible and intangible property and assets of the Company, with the exception of its intellectual property.

The total proceeds of $124.2 million from the 2017 Transaction were allocated to the 2017 Term Loan, Series B Preferred Stock, and the Series B Preferred Stock Purchase Warrant based on the relative fair value of the term loan, equity, and warrant issued. As a result, the Company allocated proceeds of $65.7 million to the 2017 Term Loan. As the proceeds allocated to the 2017 Term Loan are lower than the stated loan amount of $75.0 million, the resulting $9.3 million discount is amortized as interest expense using the effective interest method over the term of the loan.

The Term Loan was discharged in December 2020 in connection with the offering of Convertible Notes. During the year ended December 31, 2020, the Company recognized interest expense on the 2017 Term Loan of $7.5 million, inclusive of $2.1 million of discount amortization for the years ended December 31, 2020.

In connection with the Company's initial public offering ("IPO"), on June 18, 2020, the Series B Preferred Stock Purchase Warrant became exercisable for 400,160 shares of common stock.

On March 31, 2020, the Company entered into the First Amendment to the Credit Agreement (the "Credit Agreement Amendment"), with the collateral agent and lender party thereto, providing for the payment of interest due and payable as of March 31, 2020 in shares of Series B Preferred Stock, and further providing for the payment of interest due and payable as of June 30, 2020 in shares of the Series B Preferred Stock in the event the IPO has not been consummated by such date. Pursuant to the Credit Agreement Amendment, the Company concurrently entered into a Series B Preferred Stock Subscription Agreement (the "Subscription Agreement"), with the lender, which provided for the issuance of 967,130 shares of Series B Preferred Stock at a subscription price of $2.25 per share, as payment for interest due and payable as of March 31, 2020 and all applicable fees as set forth in the Credit Agreement Amendment.

On May 8, 2020, the Company entered into an unsecured convertible promissory note (the "Note") with the same private equity firm pursuant to a note purchase agreement, in an aggregate principal amount of $15.0 million, with an annual interest rate of 8.0% and a maturity date of May 8, 2022. The Note was convertible into (i) common stock upon an initial public offering at the lesser of the conversion price then in effect and a conversion price equal to 80% of the public offering price (or, if not a "qualified IPO" as defined in the Company's certificate of incorporation, at the election of a majority of the holders), (ii) on the maturity date or at the election of a majority of the holders, Series B preferred stock at an initial conversion price of $13.90 per share subject to certain adjustments, or (iii) at the election of a majority of the holders, shares of another class of equity securities issued by the Company in a future financing at 80% of the price per share of such class of equity securities issued in such offering. Interest under the Note was not generally payable except that if the Note is not converted pursuant to its terms on or prior to the maturity date and there are not sufficient authorized and unissued shares of Series B preferred stock for issuance upon the conversion of the Note on the maturity date, then the Company is required to pay all outstanding principal and any accrued and unpaid interest under the Note in cash. If the holders of the Note have not elected to convert the Note prior to, or in connection with, any sale transaction or a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, then, upon any such sale transaction or liquidation, dissolution or winding up of the Company, the Company would have been required to pay in cash the outstanding principal balance of the Note, together with accrued and unpaid interest thereon, plus a make whole premium of 50% of the aggregate principal amount (less accrued and unpaid interest). The Company evaluated the economic features embedded in the Note and identified features that were required to be bifurcated and accounted for separately as a derivative. Accordingly, a derivative liability of $3.6 million was recorded on the issuance date of the Note and $3.8 million was subsequently reclassified to equity representing the fair value of the derivative liability on the date of extinguishment. The change in the fair value of the derivative liability of $0.2 million is included in interest and other income (expense), net in the accompanying condensed consolidated statements of operations. In June 2020, in connection with completion of the IPO, the Note was converted into 1,250,000 shares of common stock and all obligations under the Note were extinguished. Upon the conversion, the Company recorded a $3.6 million loss on extinguishment of the debt, which represented the difference between the carrying value of the Note and the derivative liability and the fair value of the shares of common stock issued to the Note holder of $3.4 million combined with amortization of the related debt discount of $0.2 million. The same private equity firm participated in the IPO and acquired 3,333,333 shares at a price of $15.00 per share, which was at par with the price to other investors.

In December 2020, the private equity firm discharged any and all amounts owed and any obligations outstanding under the 2017 Term Loan in exchange for $78.5 million principal amount of Convertible Notes issued by the Company's as described in Note 7. The exchange was accounted as extinguishment of the 2017 Term Loan and resulted in $7.6 million of loss on extinguishment, which was included in the interest and other income (expense), net in the consolidated statement of operations for the year ended December 31, 2020. This private equity firm also acquired additional $25.0 million principal amount of the Company's Convertible Notes for cash in this private offering, which resulted in $103.5 million aggregate principal amount of the Convertible Notes described in Note 7 acquired by this private equity firm. For the three months ended March 31, 2021, the accrued interest expense related to the

Convertible Notes held by this private equity firm was $1.9 million. For the year ended December 31, 2020, the accrued interest expense related to the Convertible Notes held by this private equity firm was $0.5 million. Also in December 2020, the same private equity firm participated in the underwritten public offering and acquired 4,128,440 shares as a price of $3.27 per share resulting in the proceeds to the Company of $13.2 million before expenses.

9. Mortgages Payable

In January 2014, the Company executed a mortgage with Comerica Bank for $1.8 million for the purpose of acquiring property located in Ann Arbor, Michigan, which is used for laboratory testing and research purposes. The mortgage matures in 2024 and requires monthly principal and interest payments at a fixed interest rate of 2.94% plus a floating rate at LIBOR. As of March 31, 2021 and December 31, 2020, the outstanding balance of this mortgage was $1.3 million and $1.3 million, respectively. The Company also has a mortgage with American Bank of Commerce (originally executed in February 2008) outstanding on Avero's property located in Lubbock, Texas, which is used primarily for laboratory testing. The mortgage matures in 2029 and requires monthly principal and interest payments at an interest rate of 3.25%. As of March 31, 2021 and December 31, 2020, the outstanding balance of this mortgage was $1.7 million and $1.7 million, respectively.

As of March 31, 2021, the minimum principal payments under the mortgages payable were as follows (in thousands):

Year ending December 31,	Minimum Mortgages Payable Payments Obligations
Remainder of 2021	$ 204
2022	281
2023	292
2024	1,338
2025	226
Thereafter	660
Total future minimum payments	3,001
Less current portion of mortgages payable	(275)
Mortgages payable, net of current portion	$ 2,726

10. Commitments and Contingencies

Operating Leases

The Company has entered into various noncancelable operating lease agreements, primarily for office space, laboratory space, and vehicles, which expire over the next two to four years. Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. Rent expense for operating leases was $1.9 million and $2.1 million, for the three months ended March 31, 2021 and 2020, respectively.

As of March 31, 2021, net minimum payments under the non-cancelable operating leases were as follows (in thousands):

Year ending December 31,	Minimum Operating Lease Payments
Remainder of 2021	$ 4,610
2022	2,855
2023	1,000
2024	38
2025 and thereafter	—
Total future minimum lease payments	$ 8,503

Capital Leases

The Company has entered into various capital lease agreements, primarily for equipment. The outstanding leases have a weighted average imputed interest rate of 5.98% per annum. As of March 31, 2021, the future minimum payments under the capital leases were as follows (in thousands):

Year ending December 31,	Minimum Capital Lease Payments
Remainder of 2021	$ 201
2022	47
2023 and thereafter	—
Total future minimum lease payments	248
Less amounts representing interest	(8)
Present value of minimum capital lease payments	240
Less current portion of capital lease obligations	(225)
Capital lease obligations, net of current portion	$ 15

Contingencies

The Company, in the ordinary course of its business, can be involved in lawsuits, threats of litigation, and audit and investigative demands from third parties. While management is unable to predict the exact outcome of such matters, it is management's current belief, that any potential liabilities resulting from these contingencies, individually or in the aggregate, could have a material impact on the Company's financial position and results of operations.

Federal Investigations

The regulations governing government reimbursement programs (e.g., Medicaid, Tricare, and Medicare) and commercial payor reimbursement programs are complex and may be subject to interpretation. As a provider of services to patients covered under government and commercial payor programs, post payment review audits, and other forms of reviews and investigations are routine. The Company believes it complies in all material respects with the statutes, regulations, and other requirements applicable to its laboratory operations.

In April 2018, the Company received a civil investigative demand from an Assistant U.S. Attorney ("AUSA") for the Southern District of New York ("SDNY") and a Health Insurance Portability and Accountability Act subpoena issued by an AUSA for the Southern District of California ("SDCA"). In May 2018, the Company received a subpoena from the State of New York Medicaid Fraud Control Unit.

On July 21, 2020, July 23, 2020, and October 1, 2020, the Company entered into agreements with certain governmental agencies and the 45 states participating in the settlement ("State AGs") to resolve, with respect to such agencies and State AGs, all of such agencies' and State AGs' outstanding civil, and, where applicable, federal criminal investigations described above. Specifically, the Company has entered into:

- a civil settlement agreement, effective July 23, 2020, with the DOJ through the AUSA for SDNY, and on behalf of the Office of Inspector General of the Department of Health and Human Services (the "OIG"), and with the relator named therein (the "SDNY Civil Settlement Agreement");
- a civil settlement agreement, effective July 23, 2020, with the DOJ through the AUSA for SDCA, and on behalf of the Defense Health Agency, the Tricare Program and the Office of Personnel Management, which administers the Federal Employees Health Benefits Program (the "SDCA Civil Settlement Agreement");
- a non-prosecution agreement, effective July 21, 2020, with the AUSA for SDCA (the "Non-Prosecution Agreement") in resolution of all criminal allegations;
- a corporate integrity agreement, effective July 21, 2020, with the OIG (the "Corporate Integrity Agreement"); and
- civil settlement agreements, effective October 1, 2020, with the State AGs ("the State Settlement Agreements").

The Company refers to the SDNY Civil Settlement Agreement, the SDCA Civil Settlement Agreement, the Non-Prosecution Agreement, the Corporate Integrity Agreement and the State Settlement Agreements collectively as the Agreements.

SDNY Civil Settlement Agreement

Pursuant to the SDNY Civil Settlement Agreement, the Company is required to pay a settlement amount of approximately $19.4 million, which includes approximately $9.7 million designated as restitution to the U.S. federal government. During the three months ended March 31, 2021, the Company did not make any settlement payments. During the year ended December 31, 2020, the Company paid approximately $14.7 million. The outstanding settlement amount is payable in two remaining annual installments as follows:

- approximately $2.0 million on or before December 31, 2021; and
- approximately $2.8 million on or before December 31, 2022.

The remaining amounts payable to the government will be subject to interest at a rate of 1.25% per annum, and any or all amounts may be paid earlier the option of the Company.

Furthermore, the Company has agreed that, if during calendar years 2020 through 2023, and so long as amounts payable to the government remain unpaid, the Company receives any civil settlement, damages awards, or tax refunds, to the extent that the amounts exceed $5.0 million in a calendar year, it will pay 26% of the amount received in such civil settlement, damages award, or tax refunds as an accelerated payment of the scheduled amounts set forth above, up to a maximum total acceleration of $4.1 million. During the year ended December 31, 2020, the Company received a tax refund of approximately $37.7 million related to the NOL carryback provisions available under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and made accelerated payments of approximately $4.1 million under the SDNY Civil Settlement Agreement. The Company did not receive any tax refunds during the three months ended March 31, 2021.

Additionally, under the SDNY Civil Settlement Agreement, the U.S. federal government and the relator agreed to dismiss all civil claims asserted by the relator under the *qui tam* provisions of the federal False Claims Act.

SDCA Civil Settlement Agreement

The SDCA Civil Settlement Agreement requires the Company to pay a settlement amount of approximately $16.4 million, which includes approximately $10.0 million designated as restitution to the U.S. federal government. During the three months ended March 31, 2021, the Company did not make any settlement payments. During the year ended December 31, 2020, the Company paid approximately $12.5 million. The outstanding settlement amount is payable in two remaining annual installments as follows:

- approximately $1.7 million on or before December 31, 2021; and
- approximately $2.2 million on or before December 31, 2022.

The remaining amounts payable to the government will be subject to interest at a rate of 1.25% per annum, and any or all amounts may be paid earlier at the option of the Company. On July 21, 2020, the Company issued a promissory note to the U.S. federal government for the full settlement amount in connection with the SDCA Civil Settlement Agreement (the "Promissory Note"). The Promissory Note contains customary events of default and related acceleration of payment provisions. In addition, the Promissory Note provides, among other terms, that, if during calendar years 2020 through 2023, and so long as amounts payable to the government remain unpaid, the Company receives any civil settlement, damages awards, or tax refunds, to the extent that the amounts exceed $5.0 million in a calendar year, the Company will pay 22% of the amount received in such civil settlement, damages award, or tax refunds as an accelerated payment of the scheduled amounts set forth above, up to a maximum total acceleration of approximately $3.4 million. During the year ended December 31, 2020, the Company received a tax refund of $37.7 million and made accelerated payments of $3.4 million under the SDCA Civil Settlement Agreement. The Company did not receive any tax refunds during the three months ended March 31, 2021.

Non-Prosecution Agreement

Effective July 21, 2020, the Company entered into the Non-Prosecution Agreement, pursuant to which the Company agreed with the DOJ to (i) pay the restitution provided for under the SDCA Civil Settlement Agreement, (ii) not commit any felonies, (iii) continue to implement a compliance and ethics program designed to prevent and detect violations of applicable fraud and kickback laws throughout its operations and (iv) fulfill certain other disclosure, reporting and cooperation obligations. The DOJ agreed that it will not prosecute the Company for any conduct described in the Non-Prosecution Agreement provided that the Company performs its obligations under the Non-Prosecution Agreement during the period from July 21, 2020 through July 21, 2021. The Non-Prosecution Agreement provides that the DOJ may unilaterally, upon notice to the Company, extend the term of the agreement in 6-month increments, for a maximum total term of 24 months (that is, two 6-month extensions).

Corporate Integrity Agreement

In connection with the resolution of the investigated matters, and in exchange for the OIG's agreement not to exercise its authority to permissively exclude the Company from participating in federal healthcare programs, effective July 21, 2020, the Company entered into a five-year Corporate Integrity Agreement with the OIG. The Corporate Integrity Agreement requires, among other matters, that the Company maintain a Compliance Officer, a Compliance Committee, board review and oversight of certain federal healthcare compliance matters, compliance programs, and disclosure programs; provide management certifications and compliance training and education; engage an independent review organization to conduct claims and arrangements reviews; and implement a risk assessment and internal review process. The Company's failure to comply with its obligations under the Corporate Integrity Agreement could result in monetary penalties and/or the Company being excluded from participating in federal healthcare programs.

State Settlement Agreements

Effective October 1, 2020, the Company entered into agreements with the State AGs with respect to the investigated matters. The State Settlement Agreements require the Company to pay a settlement amount of approximately $13.2 million to the participating states. The State Settlement Agreements include acceleration provisions similar to the SDNY Civil Settlement Agreement and the SDCA Civil Settlement Agreements described above upon the Company's receipt of civil settlements, damages awards, and tax refunds, with the amount to be accelerated and the timing of accelerated payment subject to such receipts. Because the Company received the June 2020 and September 2020 tax benefits totaling approximately $37.7 million, the initial payment to the participating states included added payments reflecting 17% of that amount, for a total initial payment on October 2, 2020 of approximately $8.7 million. During the year ended December 31, 2020, paid approximately $9.7 million. The Company did not receive any tax refunds during the three months ended March 31, 2021.The outstanding settlement amount is payable in three remaining installments as follows:

- approximately $1.4 million on or before December 31, 2021;
- approximately $1.9 million on or before December 31, 2022; and
- approximately $0.2 million on or before December 31, 2023.

Settlement Accruals

As of December 31, 2020, the Company had accrued an aggregate of $12.1 million associated with a potential settlement with the DOJ and the participating State AGs within accrued expenses and other current liabilities and as a reduction of revenue as reflected on the consolidated balance sheet of the Company as of December 31, 2020 and consolidated statement of operations for the year ended December 31, 2020. In the quarter ended March 31, 2020, the Company had accrued $13.2 million with respect to the total amount to be paid under the agreement in principle to the DOJ and the participating State AGs, and additional amounts for related costs as of and for the quarterly period ended March 31, 2020. As of March 31, 2021, the Company's accrual consists of $5.0 million in accrued expenses and other current liabilities and $7.1 million in other long-term liabilities.

Payor Settlement Agreements

On June 25, 2018, the Company received a letter from Aetna's external legal counsel that included various allegations relating to the Company's past practices. In November 2019, the Company and Aetna entered into a settlement agreement for $15.0 million, to be paid in installment payments through December 2020. As of December 31, 2020, the Company's accrual consisted of 2.5 million and was included in accrued expenses and other current liabilities. As of March 31, 2021 the Aetna settlement obligation was fully settled.

On October 18, 2018, the Company received a letter from UnitedHealth Group that included various allegations relating to the Company's past practices. On September 30, 2019, the Company entered into a settlement agreement with United HealthCare Services, Inc. and UnitedHealthcare Insurance Company ("United") in which the Company agreed to pay an aggregate amount of $30.0 million. The settlement is to be paid with an upfront payment of $2.0 million, and the remaining balance to be paid every six months starting December 31, 2019, with the first two installment payments of $5.0 million each, and $6.0 million each thereafter. As of March 31, 2021, and December 31, 2020, the remaining settlement accrual related to United is $12.0 million for both periods and is included in accrued expenses and other current liabilities.

Payor Recoveries

As noted above, the regulations governing government reimbursement programs (e.g., Medicaid, Tricare, and Medicare) and commercial payor reimbursement programs are complex and may be subject to interpretation. As a provider of services to patients covered under government reimbursement and commercial payor programs, the Company is routinely subject to post-payment review

audits and other forms of reviews and investigations. If a third-party payor successfully challenges that a payment to the Company for prior testing was in breach of contract or otherwise contrary to policy or law, they may recoup such payment. The Company may also decide to negotiate and settle with a third-party payor in order to resolve an allegation of overpayment. In the ordinary course of business, the Company addresses and evaluates a number of such claims from payors. In the past, the Company has negotiated and settled these types of claims with third-party payors. The Company may be required to resolve further disputes in the future. While management is unable to predict the exact outcome of any such claims, it is management's current belief that any potential liabilities resulting from these contingencies, individually or in the aggregate, could have a material impact on the Company's financial position and results of operations.

In connection with the third-party review of the Company's coding and billing processes described in Note 4, which identified that the Company had not effectively transitioned to the implementation of the new CPT code for reimbursement for the Company's Preparent expanded carrier screening tests during 2019 and early 2020, the Company reviewed its reimbursement from commercial payors for these tests over the same time period. The Company may need to engage with payors in order to determine if any amounts could be subject to recovery or recoupment, as it is customarily done with commercial payors. Any amounts subject to recovery or recoupment will depend on the interpretation of widely variable payor medical and billing policies. The Company will not know if any overpayments exist until it completes this engagement with individual commercial payors. If negotiations with payors result in claims or conclusions that overpayments have been made, this could have a material impact on the Company's financial results and position. The Company is unable to predict the outcome of this matter and is unable to make a meaningful estimate of the amount or range of loss, if any, that could result from any unfavorable outcome related to this matter.

Payor Dispute

On November 16, 2020, the Company received a letter from Anthem, Inc. ("Anthem") informing the Company that Anthem is seeking recoupment for historical payments made by Anthem in an aggregate amount of approximately $27.4 million. The historical payments for which Anthem is seeking recoupment are claimed to relate primarily to discontinued legacy billing practices for the Company's NIPT and microdeletion tests and secondarily to the implementation of the new CPT code for reimbursement for the Company's Preparent expanded carrier screening tests.

As noted above, the Company has historically negotiated and settled similar claims with third-party payors. Although the Company's practice in resolving disputes with other similar large commercial payors has generally led to agreed settlement amounts substantially less than the originally claimed amount, there can be no assurance that the Company will be successful in a similar settlement amount in any ongoing or future dispute. In management's experience with negotiations with similarly situated commercial payors, a settlement may take six to twelve months to negotiate, and the time period over which a negotiated settlement payment may be paid could extend from one to two years, or longer. Historical settlement amounts and payment time periods may not be indicative of the final settlement terms with Anthem, if any. Management intends to negotiate and/or dispute this claim of recoupment with Anthem and seek to offset any amounts owed by Anthem to the Company. Anthem has indicated a willingness to engage in contract negotiations for in-network status separately and in parallel to discussions regarding its recoupment claim. The resolution of this dispute may or may not include the Company moving in network with Anthem. As a potential means of making recoupment payments, if any, the Company may negotiate to apply temporarily lowered contracted rates for a specific period. Such provider-payor disputes are not uncommon and the Company expects to approach this dispute with an aim to resolve in a mutually satisfactory manner. The Company has recorded an accrual for the estimated probable loss for this matter as of December 31, 2020 and March 31, 2021.

Natera Lawsuit

On June 17, 2020, Natera, Inc. ("Natera") filed suit in the Western District of Texas (W.D. Texas Civil Action No. 6:20-cv-532) asserting the Company's infringement of six Natera patents based on a portion of the Company's NIPT product offering. On June 19, 2020, Natera filed a substantially similar second suit in the Northern District of Texas (N.D. Texas Civil Action No. 3:20-cv-1634). On July 31, 2020, the Company filed a motion to dismiss the Western District of Texas case based on improper venue. The motion is fully briefed and remains pending before the Court. The Northern District of Texas case has been stayed until a decision with respect to the motion to dismiss is made.

On July 2, 2020, the Company filed a Complaint for Declaratory Judgment of Non-Infringement against Natera in the Southern District of California (S.D. California Civil Action No. 3:20-cv-1252). This case has been stayed pending the outcome of the Company's venue motion in the Western District of Texas.

Management believes that the claims in Natera's complaints are without merit and the Company is vigorously defending against them.

Ravgen Lawsuit

On December 22, 2020, Ravgen, Inc. ("Ravgen") filed suit in the District of Delaware (D. Del. Civil Action No. 1:20-cv-1734) asserting the Company's infringement of two Ravgen patents. The Company responded to the complaint on March 23, 2021.

Management believes the claims in Ravgen's complaint are without merit, and the Company is vigorously defending against them.

IPO Litigation

On June 23, 2020, the Company closed its initial public offering of common stock (the "IPO"). Lawsuits were filed on August 28, 2020 and September 11, 2020 against the Company, certain of its executive officers and directors, and the underwriters of the IPO. On December 3, 2020, the U.S. District Court for the Southern District of California consolidated the two actions, appointed Lin Shen, Lingjun Lin and Fusheng Lin to serve as Lead Plaintiffs, and approved Glancy Prongay & Murray LLP to be Lead Plaintiffs' Counsel. Lead Plaintiffs filed their amended complaint on February 4, 2021. -It alleges that the Company's registration statement and related prospectus for the IPO contained false and misleading statements and omissions in violation of the Securities Act of 1933 by failing to disclose that the Company (i) had overbilled government payors by $10.3 million and thus overstated its revenues for the full fiscal year 2019 and first quarter of 2020, and (ii) was allegedly suffering from material negative trends with respect to testing volumes, average selling prices for its tests, and revenues. Lead Plaintiffs seek certification as a class, unspecified compensatory damages, interest, costs and expenses including attorneys' fees, and unspecified extraordinary, equitable, and/or injunctive relief. Together with the underwriters of the IPO, the Company moved to dismiss the amended complaint on April 5, 2021. Lead Plaintiffs' opposition to the motion is due by June 4, 2021. -The Company intends to continue to vigorously defend against these claims. Subject to a reservation of rights, the Company is advancing expenses subject to indemnification to the underwriters of the IPO.

Given the uncertainty of litigation, the preliminary stages of the Natera, Ravgen, and IPO litigations, and the legal standards that must be met for, among other things, success on the merits, the Company is unable to predict the ultimate outcome of these actions, and therefore cannot estimate the reasonably possible loss or range of loss, if any, that may result from these actions.

11. Stockholders' Equity

Common Stock

Pursuant to the Company's eighth amended and restated certificate of incorporation, which went into effect immediately prior to the completion of the IPO, the Company is authorized to issue 350 million shares of common stock and 10 million shares of undesignated preferred stock. Each holder of common stock is entitled to one vote per share of common stock held.

On June 18, 2020, the Company completed its IPO. In the IPO, the Company issued and sold 6,666,667 shares of its common stock, at a price to the public of $15.00 per share. The Company received approximately $88.7 million in net proceeds, after deducting $7.0 million in underwriting discounts and commissions and $4.3 million in other offering expenses payable by the Company. Other offering costs consisted primarily of legal and accounting fees, which were direct and incremental fees related to the IPO.

In December 2020, the Company issued and sold 8,792,047 shares of its common stock in an underwritten public offering, at a price of $3.27 per share. The Company received approximately $26.9 million in net proceeds, after deducting underwriting discounts and commissions and other offering expenses payable by the Company.

In February 2021, the Company entered into a Securities Purchase Agreement for a private placement with certain institutional and accredited investors (the "Purchasers"). Pursuant to the Securities Purchase Agreement, the Purchasers purchased an aggregate of 4,370,629 units (the "Units"), representing (i) 4,370,629 shares of the Company's common stock and (ii) warrants to purchase up to 4,370,629 shares of common stock. The purchase price for each Unit was $5.72, for an aggregate purchase price of approximately $25.0 million. The warrants are exercisable for cash at an exercise price of $6.86 per share, subject to adjustments as provided under the terms of the warrants. The warrants are exercisable at any time for cash and expire on the fifth anniversary of the date of issuance. If exercised for cash, the warrants would result in additional gross proceeds to the Company of approximately $30.0 million.

Pursuant to ASC 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity*, the Company deemed the warrants to be liability classified and allocated the proceeds from issuance between the warrants and common stock using the with-and-without method. $12.8 million of the proceeds equal to the fair value of the warrants determine using the Black-Scholes Model was allocated to the warrant liability, and the remaining proceeds of $12.2 million was allocated to the common stock. The Company incurred a total of $1.4 million issuance cost which was allocated between the warrants and common stock on a relative fair value basis, with $0.5 million and $0.9 million, respectively. The warrant liability was remeasured at $10.2 million as of March 31, 2021. The Company

recognized a gain on warrant liability in the amount of $2.6 million associated with this transaction during the quarter ended March 31, 2021. On April 1, 2021, the registration statement to register the shares of common stock underlying the warrants was declared effective by the SEC. As a result, the warrants met the conditions to be classified in equity and the related warrant liability was reclassified from liability to equity on April 1, 2021.

Treasury Stock

In June 2014, the Company authorized an Equity Repurchase Program for Key Employees (the "Repurchase Program"). The Repurchase Program allowed the Company to repurchase for cash a portion of the common stock equity interests of certain employees, provided that (i) no more than 25% of the equity interest of any employee was repurchased under the Repurchase Program, (ii) the purchase price paid for each share of common stock equaled the most recent appraisal valuation of the Company's common stock, and (iii) the aggregate repurchases did not exceed the lesser of (a) equity interest representing, in the aggregate, 0.8 million shares of common stock, (b) a purchase price, in the aggregate, of more than $6.0 million, and (c) the maximum repurchases permitted under the General Corporation Law of the State of Delaware. In addition, it was the Company's practice to require individuals exercising stock options to hold the shares received upon exercising for a reasonable period of time in order for the holder to be exposed to the economic risks and rewards of share ownership prior to participating in the Repurchase Program. A reasonable period of time was defined as a period of at least six months and that covered at least two common stock appraisal valuations. The Repurchase Program has been discontinued.

Convertible Preferred Stock

On August 27, 2019, the Company issued 9,090,910 shares of Series B Preferred Stock at an issuance price of $2.75 per share for an aggregate consideration of $25.0 million (the "August 2019 Financing") pursuant to a Series B Preferred Stock Purchase Agreement with a private equity firm. In addition, the Company amended the Series B Preferred Stock Purchase Warrant dated October 27, 2017 to increase the Series B Preferred Stock underlying the Series B Preferred Stock Purchase Warrant from 1,416,431 shares to 1,818,182 shares and adjust the exercise price to $2.75 per share. The $25.0 million of proceeds from the August 2019 Financing were allocated among the newly issued Series B Preferred Stock shares and additional shares of Series B Preferred Stock Purchase Warrant based on their relative fair values.

In connection with the August 2019 Financing, the Board of Directors and stockholders approved a 1.28-for-1 stock split for the Company's Series B Preferred Stock and Series B Preferred Stock Purchase Warrant issued and outstanding prior to the August 2019 Financing, which was effected on August 27, 2019 pursuant to an amendment to the amended and restated certificate of incorporation. The conversion price of the Series B Preferred Stock and exercise price of the outstanding Series B Preferred Stock Purchase Warrant was lowered from $3.53 to $2.75 per share. As a result, the Company issued 4,017,512 additional shares of Series B Preferred Stock as a stock dividend to the preferred stockholders, which was recorded as a $13.1 million increase to accumulated deficit in the consolidated statements of stockholders' deficit during the year ended December 31, 2019.

On August 27, 2019, the Company entered into an Exchange Agreement with holders of Series A-1 Preferred Stock (the "Exchange Agreement") pursuant to which the outstanding 1,500,000 shares of Series A-1 Preferred Stock were exchanged for 35,664,240 shares of Series B Preferred Stock. The exchange ratio was 1.2 to 1 on as-if converted to 4,810,651 shares of common stock that the Series A-1 Preferred Stock can be converted to, based on the conversion rate of 3.2 to 1. The Company determined that such exchange constituted a modification to the Series A-1 Preferred Stock. Accordingly, the increase comparing the fair value of the Series B Preferred Stock with the fair value of the Series A-1 Preferred Stock represented a dividend to the preferred stockholders of approximately $27.6 million, which was recorded as an increase to accumulated deficit in the consolidated statements of stockholders' deficit during the year ended December 31, 2019.

On November 12, 2019, the Company entered into a Series B Preferred Stock Purchase Agreement (the "November Series B Preferred Stock Purchase Agreement") with a private equity firm and received $25.0 million (the "November 2019 Financing") in exchange for the issuance of 11,111,111 shares of Series B Preferred Stock at $2.25 per share. In connection with the November 2019 Financing, the Board of Directors and stockholders approved a 1.22-for-1 stock split for the Company's Series B Preferred Stock and Series B Preferred Stock Purchase Warrant issued and outstanding prior to the November 2019 Financing. The conversion price of the Series B Preferred Stock and exercise price of the outstanding Series B Preferred Stock Purchase Warrant was lowered from $2.75 to $2.25 per share. As a result, the Company issued 13,985,993 additional shares of Series B Preferred Stock and adjusted the Series B Preferred Stock Purchase Warrant to purchase up to 2,222,222 shares of Series B Preferred Stock. The issuance of additional shares represented a stock dividend to the preferred stockholders, which was recorded as a $36.4 million increase to accumulated deficit in the consolidated statements of stockholders' deficit during the year ended December 31, 2019. In connection with the November 2019 Financing, the Company amended the certificate of incorporation. Following the amendment, there are no authorized or outstanding shares of Series A-1 Preferred Stock.

On November 22, 2019, the Company completed an additional equity financing pursuant to the November Series B Preferred Stock Purchase Agreement with certain existing, accredited investors for an aggregate of $6.1 million in exchange for the issuance of an aggregate of 2,722,222 shares of Series B Preferred Stock at $2.25 per share.

On December 19, 2019, the Company completed an additional equity financing pursuant to the November Series B Preferred Stock Purchase Agreement with the same private equity firm as the November 2019 Financing for $25.0 million in exchange for the issuance of 11,111,111 shares of Series B Preferred Stock at $2.25 per share.

In February 2020, the Company issued and sold an aggregate of 5,066,666 shares of Series B Preferred Stock at a purchase price of $2.25 per share to existing investors in exchange for aggregate consideration of approximately $11.4 million.

On March 31, 2020, in connection with the Credit Agreement Amendment, which provided for the payment of interest due and payable as of March 31, 2020 and June 30, 2020 (only in the event the IPO had not been consummated by such date) in shares of Series B Preferred Stock, the Company issued an aggregate of 967,130 shares of Series B Preferred Stock at a subscription price of $2.25 per share to existing investors as payment for interest due and payable as of March 31, 2020 and all applicable fees.

On April 3, 2020, the Company issued and sold an aggregate of 4,444,444 shares of its Series B Preferred Stock at a purchase price of $2.25 per share to existing investors in exchange for aggregate consideration of approximately $10.0 million in cash.

The fair value of the preferred stock was estimated using a hybrid between a probability-weighted expected return method (“PWERM”) and option pricing model (“OPM”), estimating the probability weighted value across multiple scenarios, while using an OPM to estimate the allocation of value within one or more of these scenarios. Under a PWERM, the value of the Company’s various classes of stock was estimated based upon an analysis of future values for the Company assuming various future outcomes, including two IPO scenarios and one scenario contemplating the continued operation of the Company as a privately held enterprise. Guideline public company multiples were used to value the Company under its various scenarios. Share value for each class of stock was based upon the probability-weighted present value of expected future share values, considering each of these possible future outcomes, as well as the rights of each share class.

The significant unobservable inputs into the valuation model used to estimate the fair value of the preferred stock include the timing of potential events (primarily the IPO) and their probability of occurring, the selection of guideline public company multiples, a discount for the lack of marketability of the common stock, and the discount rate used to calculate the present value of the estimated equity value allocated to each share class.

In connection with the IPO, on June 18, 2020, all outstanding Series A Preferred Stock and Series B Preferred Stock converted into 33,443,562 shares of common stock, including the issuance of 2,045,522 shares of common stock pursuant to an adjustment in the conversion rate of all of the shares of Series B Preferred Stock outstanding immediately prior to the IPO. Upon conversion of the convertible preferred stock, the Company reclassified their carrying value to common stock and additional paid-in capital.

Common Stock Reserved for Future Issuance

The Company reserved shares of common stock, on an as-if-converted basis, for future issuance as follows:

	March 31, 2021	December 31, 2020
Outstanding options to purchase common stock	5,572,641	4,268,945
Restricted stock units outstanding	1,374,479	1,468,765
Available for future issuance under equity incentive plan	5,970,439	2,938,616
Common stock issuable upon conversion of Convertible Notes	51,529,036	51,529,036
Common stock warrant	4,770,789	400,160
Total	69,217,384	60,605,522

12. Stock-Based Compensation

In February 2018, the Company adopted the 2018 Equity Incentive Plan (the “2018 Plan”). The 2018 Plan is the successor to and continuation of the Second Amended and Restated 2012 Stock Plan (the “2012 Plan”) and the 2015 Consultant Stock Plan (the “2015 Plan”) and is administered with either stock options or restricted stock units. The Board of Directors administers the plans. Upon adoption of the 2018 Plan, no new stock options or awards are issuable under the 2012 Plan, as amended, or the 2015 Plan. The 2018 Plan also provides for other types of equity to issue awards, which at this time the Company does not plan to utilize. The 2018 Plan was amended in March 2019 with 1.1 million shares available for future grant.

In December 2019, the Company adopted the Second Amended and Restated 2018 Equity Incentive Plan, which increased the number of shares available for future grant to 2.7 million shares. On March 4, 2020, the Board of Directors adopted the Third Amended and Restated 2018 Equity Incentive Plan (the "2018 Third Amended Plan"), which increased the number of shares available for future grant to a total of 7,615,733 shares and was approved by stockholders on March 5, 2020. As of March 31, 2021, the number of shares available for grant under the 2018 Third Amended Plan was 5,970,439. The 2018 Third Amended Plan provides for automatic annual increase in the number of shares of common stock reserved for issuance, which resulted in an additional 4,537,676 shares reserved for future issuance effective January 1, 2021.

Stock Options

The following table summarizes stock option activity under the 2012 Plan, the 2015 Plan, and the 2018 Third Amended Plan during the three months ended March 31, 2021(in thousands, except share and per share data):

	Stock Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Balance at December 31, 2020	4,268,945	$ 8.14		
Options granted	1,563,980	4.75		
Options exercised	(71,284)	1.23		
Options forfeited/cancelled	(30,434)	8.10		
Options expired	(158,566)	10.64		
Balance at March 31, 2021	5,572,641	$ 7.21	8.38	$ 1,641,876
Vested and expected to vest at March 31, 2021	5,572,641	$ 7.21	8.38	$ 1,641,876
Vested and exercisable at March 31, 2021	1,745,153	$ 8.42	6.22	$ 1,218,907

As of March 31, 2021, the number of shares available for grant under the 2018 Third Amended Plan was 5,970,439.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option grant on the date of grant or any other measurement date. The following table sets forth the assumptions used to determine the fair value of stock options granted during the three months ended March 31, 2021:

	Three Months Ended March 31, 2021
Risk-free interest rate	0.6% - 1.1%
Expected volatility	67.8% - 69.9%
Expected dividend yield	—
Expected life (years)	3.0 - 6.3 years

Restricted Stock Units

The following table summarizes restricted stock unit activity for the three months ended March 31, 2021:

	Number of Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2020	1,468,765	$ 8.73
Granted	97,219	4.93
Vested	(174,730)	10.70
Forfeited/cancelled	(16,775)	8.24
Balance at March 31, 2021	1,374,479	$ 8.22

2020 Employee Stock Purchase Plan

In June 2020, the Company's board of directors adopted the ESPP. At December 31, 2020, 510,000 shares of common stock were reserved for future issuance under the ESPP. The ESPP also provides for automatic annual increases in the number of shares of common stock reserved for issuance, which resulted in an additional 557,723 shares reserved for future issuance effective January 1, 2021 and 1,067,723 total shares of common stock reserved for future issuance at March 31, 2021. The Company commenced a series of offerings under the ESPP on December 1, 2020. The initial offering began December 1, 2020, ends on November 30, 2022 (unless terminated earlier, as described below) and consists of four purchase periods. The purchase periods end on the last trading day of May and November of each year. Eligible employees who enroll in the initial offering or any subsequent offering will be able to purchase shares of the Company's common stock at a discount through payroll deductions, subject to certain limitations. The purchase price of the shares of common stock will be the lesser of (i) 85% of the fair market value of such shares on the offering date and (ii) 85% of the fair market value of such shares on the purchase date. Following the commencement of the initial offering, a new 24-month offering with four six-month purchase periods will automatically begin approximately every six months thereafter over the term of the ESPP. Offerings will be concurrent, but in the event the fair market value of a share of common stock on the first day of any purchase period during an offering (the "New Offering") is less than or equal to the fair market value of a share of common stock on the offering date for an ongoing offering (the "Ongoing Offering"), then the Ongoing Offering terminates immediately following the purchase of shares on the purchase date immediately preceding the New Offering and the participants in the terminated Ongoing Offering are automatically enrolled in the New Offering. Notwithstanding the above, the Company's board of directors (or an authorized committee thereof) may modify the terms of or suspend any future offerings prior to their commencement. The Company issues new shares for purchases of stock made pursuant to the ESPP.

Stock-Based Compensation Expense

The following table presents total stock-based compensation expense included in each functional line item in the accompanying condensed consolidated statements of operations (in thousands):

	Three Months Ended March 31,	
	2021	2020
Cost of sales	$ 142	$ 228
Research and development	624	662
Selling and marketing	390	373
General and administrative	1,474	794
Total stock-based compensation expense	$ 2,630	$ 2,057

The weighted-average grant date fair value of options granted during the three months ended March 31, 2021 and 2020 was $2.95 per option and $6.29 per option, respectively. At March 31, 2021 and December 31, 2020, there was $15.6 million and $12.8 million, respectively, of compensation cost related to unvested stock options expected to be recognized over a remaining weighted average vesting period of 2.17 and 2.93 years, respectively.

13. Income Taxes

The Company calculates its interim income tax provision in accordance with ASC Topic 270, *Interim Reporting*, and Topic 740, *Accounting for Income Taxes*. At the end of each interim period, management estimates the annual effective tax rate and applies such rate to the Company's ordinary quarterly earnings to calculate income tax expense related to ordinary income. Due to maintenance of a full valuation allowance, the Company had a zero effective tax rate for the three months ended March 31, 2021. The tax effects of items significant, unusual and infrequent in nature are discretely calculated and recognized in the period during which they occur.

On March 27, 2020, the CARES Act was enacted. The CARES Act includes several significant provisions for corporations, including those pertaining to net operating loss ("NOL") carryforwards, interest deductions and payroll tax benefits. Corporate taxpayers may carryback NOLs originating during 2018 through 2020 for up to five years. During the first quarter of 2020, the Company recorded a discrete tax benefit of $37.7 million related to the NOL carryback provisions available under the CARES Act legislation corresponding to anticipated tax refunds applicable to taxable years 2013, 2014, 2015, and 2017. If any tax refund is received that is more than $5.0 million in a single year, along with other civil settlements, damages awards, and tax refunds, the Company has agreed to pay 65% of all such amounts received to accelerate payments to the government in connection with the government settlement (see Note 9). The Company received a tax refund of $37.7 million related to the NOL carryback provisions available under the CARES Act during 2020. There is no additional carryback for the three months ended March 31, 2021.

The Company's NOL carryforwards and research and expenditure credit carryforwards may be subject to an annual limitation under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), and similar state provisions if the Company experiences an ownership change within the meaning of such Code sections. In general, an ownership change, as defined by Sections 382 and 383 of the Code, occurs when there is a 50 percentage points or more shift in ownership, consisting of shareholders owning more than 5% in the Company, occurring within a three-year testing period. During the year ended December 31, 2020, the Company completed a formal Section 382 study and concluded that an ownership change, within the meaning of Sections 382 and 383, limiting future utilization of existing tax attribute carry-forwards, had not occurred. Any future ownership changes under Section 382 and 383 could have an impact to the utilization of the net operating losses and general business credits.

14. Net Loss Per Share

Net loss per share is computed by dividing net loss attributable to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the additional dilution from potential issuances of common stock, such as stock issuable pursuant to the exercise of stock options, as well as from the possible conversion of the Company's preferred stock and exercise of the outstanding warrant. The treasury stock and if-converted methods are used to calculate the potential dilutive effect of these common stock equivalents. However, potentially dilutive shares are excluded from the computation of diluted loss per share when their effect is antidilutive. Due to the Company reporting a net loss attributable to common stockholders for all periods presented, all potentially dilutive securities were antidilutive and have been excluded from the computation of diluted loss per share.

The table below provides potentially dilutive securities in equivalent common shares not included in the Company's calculation of diluted loss per share because to do so would be antidilutive:

	March 31, 2021	March 31, 2020
Options to purchase common stock	5,572,641	3,678,520
Restricted stock units	1,374,479	990,463
Common stock warrant	4,770,789	—
Common stock issuable upon conversion of Convertible Notes	51,529,036	—
Series A Preferred Stock	—	13,213,254
Series B Preferred Stock	—	17,465,388
Series B Preferred Stock Purchase Warrant	—	359,699
Total	63,246,945	35,707,324

15. Subsequent Events

On March 3, 2021, the Compensation Committee of the Board of Directors approved grants to eligible employees and consultants of a total of 2,939,931 RSUs and stock options to purchase up to a total of 5,986,004 shares of common stock, subject to the terms of the Company's 2018 Equity Incentive Plan and related agreements. The RSUs and options were granted under the Company's 2018 Equity Incentive Plan, but were subject to stockholder approval of an increase in the total shares authorized under the plan.

On May 5, 2021, holders of a majority of the outstanding common stock executed a written consent approving an increase of 7,700,000 shares authorized for issuance under the 2018 Equity Incentive Plan, resulting in a total of 19,853,409 shares authorized for issuance under the 2018 Equity Incentive Plan. The consent will be effective 20 days after the Company provides stockholders with an Information Statement on Schedule 14C providing required disclosures regarding this stockholder action.

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

General

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto and other financial information included in this Quarterly Report on Form 10-Q, or this Quarterly Report, and the audited consolidated financial statements and notes thereto as of and for the years ended December 31, 2019 and 2020 and other financial information included in our Annual Report on Form 10-K for the year ended December 31, 2020. Unless the context requires otherwise, references in this Quarterly Report to "we," "us," and "our" refer to Progenity, Inc.

This Quarterly Report includes forward-looking statements that involve a number of risks, uncertainties and assumptions. These forward-looking statements can generally be identified as such because the context of the statement will include words such as "may," "will," "intend," "plan," "believe," "anticipate," "expect," "estimate," "predict," "potential," "continue," "likely," or "opportunity," the negative of these words or other similar words. Similarly, statements that describe our plans, strategies, intentions, expectations, objectives, goals or prospects and other statements that are not historical facts are also forward-looking statements. For such statements, we claim the protection of the Private Securities Litigation Reform Act of 1995. Readers of this Quarterly Report are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the time this Quarterly Report was filed with the SEC. These forward-looking statements are based largely on our expectations and projections about future events and future trends affecting our business, and are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. These risks and uncertainties include, without limitation, the risk factors identified below and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below. In addition, past financial or operating performance is not necessarily a reliable indicator of future performance, and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition. Except as required by law, we undertake no obligation to update publicly or revise our forward-looking statements.

OVERVIEW

We are a biotechnology company with an established track record of success in developing and commercializing molecular testing products as well as innovating in the field of precision medicine. We believe that we are a market-leading provider of in vitro molecular tests designed to improve lives by providing actionable information that helps guide patients and physicians in making critical and timely medical decisions during various life stages, such as family planning, pregnancy, or navigating a complex disease diagnosis. Our vision is to transform healthcare to become more precise and personal by improving diagnoses of disease and improving patient outcomes through localized treatment with targeted therapies. We apply a multi-omics approach, combining genomics, epigenomics, proteomics, and metabolomics, to our molecular testing products and to the development of a suite of investigational ingestible devices and drug/device combinations designed to provide precise diagnostic sampling and drug delivery solutions.

Our internal core competencies, deep research and development pipeline and strategic acquisitions of novel technologies have fueled our innovation in women's health, supporting the development and launch of complementary molecular testing products that inform critical healthcare decision-making across a woman's lifetime.

In 2015, we launched both our Innatal Prenatal Screen, a Non-Invasive Prenatal Testing, or NIPT, offering, and our Preparent Carrier Test, followed by the launch of our Riscover Hereditary Cancer Test in 2017. We offer molecular tests with market-leading performance and turnaround times, supported by end-to-end workflow solutions that increase administrative efficiencies. Along with our comprehensive menu of molecular tests, we offer patients pre-test education, clear and timely results, and on-demand genetic counseling. We are committed to providing patients and physicians with empathetic communication and support during critical moments to help empower and prepare patients and their families to make critical life decisions.

We generate revenue by providing tests. Our molecular tests are provided through our certified Clinical Laboratory Improvement Amendments, or CLIA, and College of American Pathologists, or CAP, accredited laboratory located in Ann Arbor, Michigan. We also provide anatomic and molecular pathology tests through our affiliation with Mattison Pathology, LLP, a Texas limited liability partnership doing business as Avero Diagnostics, located in Lubbock and Irving, Texas. The focus of our commercial operations is to distribute our molecular tests and our anatomic and molecular pathology tests through our dedicated direct sales force. Distribution of our tests is supported by a field operations team who provide all logistical functions in receiving clinical samples at the laboratory for analysis. In the second quarter of 2020, we added COVID-19 testing to our offering and began offering COVID-19 testing nationally in mid-November 2020. Future demand for COVID-19 testing is becoming increasing difficult to predict due to various factors, including but not limited to, the availability of vaccinations, the number of individuals who choose to be vaccinated, the effectiveness of the various vaccinations against variants, the rate of new cases, and evolving government directives, laws, regulations and rules related to COVID-19 testing. In the long term, we expect that the COVID-19 pandemic will eventually dissipate and, as a result, the significance of COVID-19 testing to our business and financial results will decrease. During the three months ended March 31, 2021, we accessioned approximately 78,915 tests.

We generate revenue through providing our tests and receiving payments for such tests from payors, laboratory distribution partners, and self-paying individuals. More than 95% of payments for our tests are received through reimbursement. We receive reimbursement from several distinct channels: commercial third-party payors, laboratory distribution partners, and government health benefits programs such as Medicare and Medicaid.

We are engaged in research and development activities with respect to molecular tests and precision medicine product candidates. Our molecular test portfolio and pipeline and our precision medicine product pipeline are each powered by a combination of symbiotic technology platforms exploiting advances in genetics, epigenetics, and proteomics, fortified by an innovative bioinformatics infrastructure. Our ecosystem is designed to enable rapid development and validation of products in an integrated fashion. We intend to continue to invest in our research and development activities as a public company. As a result, we expect to incur operating losses for the foreseeable future and may need to raise additional capital in order to fund our operations. Our ability to return to profitability will depend upon achieving our revenue growth objectives and successfully managing our costs.

Factors Affecting Our Performance.

We believe there are several important factors that impact our commercial performance and results of operations, including:

Report Volume

We compete in the molecular testing market based upon several factors, including (i) the strong performance and short turnaround time of our integrated tests, (ii) the quality of our sales and marketing efforts with physicians, (iii) the quality of our end-to-end customer service and support solutions, and (iv) the availability of reimbursement for our tests. Our commercial team of more than 150 individuals actively engages with physicians and their staff to emphasize the clinical need for our products, provide education on the clinical value of our products, and facilitate the ability of physicians and their staff to order our tests. The volume of tests that we accession is one of the key performance indicators that we use to evaluate our business. A test is accessioned when we receive the test samples at our laboratory, the relevant information about the desired test is entered into our systems, and the samples are routed into the appropriate process flow. The historical ratio of the Innatal tests and the Preparent tests that we accession is approximately 1.2:1. As the types and categories of tests that are covered by reimbursement increase or decrease, the volume of testing may correspondingly increase or decrease, respectively. In 2019, we conducted a comprehensive review of our existing accounts and sought to eliminate accounts that did not contribute to our revenues and our gross margin. Our test volumes decreased partly as a result of this exercise.

Beginning in March 2020, we began to observe declines in the volumes of both our molecular tests and the pathology tests conducted by Avero Diagnostics due to the impact of the COVID-19 pandemic and resulting work-from-home policies and other operational limitations mandated by federal, state and local governments. However, we believe our business is resilient and we observed positive signs of recovery in the second half of 2020 and in the first quarter of 2021. While we have implemented and continue to monitor our mitigation strategies to address these limitations, such as supporting patients and physicians virtually and offering COVID-19 PCR testing, there can be no assurance that the rate of decline in our testing volumes will not continue or accelerate in future periods. Our current assessment of the impact of the COVID-19 pandemic is that our NIPT test volumes have proved more resilient than our carrier screening test volumes; however, the comparative impact may continue to change over time.

Reimbursement

Reimbursement fluctuations may occur due to a variety of factors, many of which are outside of our control, including, but not limited to:

- third-party payor coverage and, as we continually seek to transition to in-network coverage with commercial third-party payors, corresponding increases in our in-network covered lives;
- regulatory and medical society recommendations such as CMS, the American College of Obstetricians and Gynecologists, or ACOG, ACMG, and SMFM, that potentially lead to positive coverage determinations by commercial third-party payors and government health benefits programs for our tests;
- third-party payor medical coverage and administrative policies, including reimbursement rates published by CMS;
- delays to third-party payors' processing due to the impact of the COVID-19 pandemic and resulting work-from-home policies and other operational limitations mandated by federal, state, and local governments;
- future CPT code and medical procedure code changes, such as obtaining appropriate codes for our new molecular tests, including our expanded carrier screening panels, NIPT, and Exon carrier screening;

- regulatory and payor fee schedule changes for CPT codes with respect to our products;
- requirements to refund any reimbursements already received;
- the overall mix of payor class for our products sold;
- changes in physician ordering trends;
- the mix of our products sold;
- the geographic regions in which our products are sold;
- competition in our industries and any change in the competitive landscape of our industries, including potential consolidation; and
- future accounting pronouncements or changes in our accounting policies.

Gross Margin

Our gross margin is an important indicator of the operating performance of our business. Higher gross margins reflect the average selling price of our tests, as well as the operating efficiency of our laboratory operations. Reducing the costs of goods sold for our tests represents another important opportunity for innovation and is a significant area of focus for our research and development organization. We regularly evaluate our operations in order to determine whether we can reduce costs by developing new technologies, improving the efficiency of our assay and laboratory processes, modifying our processes to use materials and technologies that provide equal or greater quality at lower cost, and improving how we manage our inventory and negotiating favorable terms for our materials purchases. We are currently developing our next generation Innatal Prenatal Screen (Innatal 4th Generation), an improved platform with simplified and more cost-effective assay workflow, which we believe will allow us to substantially improve the gross margin of our NIPT. We also work with partner laboratories that complement our test portfolio offering, while developing in parallel new technologies that we expect could, over time, reduce our cost structure by internalizing the production of those tests when the commercial benefits dictate such conversion. We are now predominantly an in-network provider, with approximately 146 million covered lives nationwide under our agreements with commercial third-party payors following the recent additions of in-network contracts with Aetna and Cigna. While we continue our contract negotiation process with several additional large commercial third-party payors, the transition to establishing ourselves as an in-network provider is expected to lead to an increase in the proportion of tests paid and allow us to gain access to a larger in-network patient base.

New Product Development

Our business involves significant investment in research and development activities for the development of new products which we believe are strategic complements to our product portfolio and drive long-term revenue growth. We intend to continue investing in our pipeline of new products and technologies. We expect our investment in research and development to increase as we pursue regulatory approval of our product candidates and as we seek to expand our pipeline of product candidates. Due to the impact of the COVID-19 pandemic and resulting work-from-home policies and other operational limitations mandated by federal, state, and local governments, certain of our research and development activities have been delayed and may be further delayed until such operational limitations are lifted. While we are implementing mitigation strategies, where possible, certain preclinical and clinical activities were suspended during the implementation of these policies and will necessarily incur some delay following the resumption of normal operations. While some of our research and development laboratory work was impacted by the stay-at-home shutdown, especially in our Michigan facilities, our preeclampsia test verification work restarted in June 2020 and has now migrated to the operations laboratory, which is part of our essential services, and is, therefore, less exposed to further shutdowns caused by the COVID-19 pandemic. However, the development of our new products could continue to be delayed if any stay-at-home orders in the State of Michigan are reinstated.

The achievement of key development milestones (e.g., clinical verification and validation and CLIA certification for our molecular tests and clinical studies and regulatory approval for our precision medicine product platform) is a key factor in evaluating our performance.

Key Components of Our Results of Operations

Revenue

Substantially all of our revenue is derived from molecular laboratory tests, principally from the sale of Innatal, Preparent, and pathology molecular testing. Historically, the revenue we derive from our Innatal tests and our Preparent tests has been roughly equal, although the ratio fluctuates from time to time. We bill and collect from third-party payors, laboratory distribution partners, and self-

paying individuals. Third-party payors include commercial third-party payors and government payors, such as Medicare and Medicaid in the United States. We bill for these tests rendered upon completion of the testing process and delivery of test results to the customer.

Due to potential future changes in insurance coverage policies, contractual rates, and other trends in the reimbursement of our tests, payments received for our tests may fluctuate significantly over time. Our revenue incorporates an estimate of variable consideration, which is adjusted for estimates of disallowed cases, discounts, and refunds. We have established an accrual for refunds of payments previously made by healthcare insurers based on historical experience and executed settlement agreements with healthcare insurers. The refunds are accounted for as reductions in revenues in the statement of operations as an element of variable consideration. Our estimate of variable consideration included in the transaction price is also impacted by our ongoing transition to in-network contracts with commercial payors.

Currently, we operate primarily as an in-network provider of molecular tests and we continually seek to transition to in-network coverage with additional third-party payors, which we believe is crucial to our growth and long-term success. This transition is ongoing, and we are actively negotiating with a few remaining commercial payors. We are currently contracted with payors representing an estimated 146 million covered lives.

While the negotiated fees under our in-network contracts with third-party payors are typically lower than the out-of-network list price of our tests, the percentage of tests allowed by payors under in-network contracts traditionally increases in accordance with payors' medical or administrative policies. While we expect the reduction in average reimbursement per test from in-network pricing to reduce our per test revenue and gross margins in the near term, in-network pricing is more predictable than out-of-network pricing, and we intend to continue to mitigate the impact by implementing a strategic focus for our most profitable accounts.

Delays to third-party payors' processing due to the impact of the COVID-19 pandemic and resulting work-from-home policies and other operational limitations mandated by federal, state, and local governments have and may continue to extend the typical timelines. These factors might delay the time period in which cash is collected from payors and impact our revenue recognition. We believe that the full impact of these delays may not yet have been reflected in our financial performance, as we customarily receive payment several months after completion of a molecular test.

Cost of Sales

Cost of sales includes the cost of materials, direct labor of laboratory personnel, third-party laboratory testing services, equipment, and infrastructure expenses associated with processing blood and other samples, quality control analyses, shipping charges to transport samples and specimens from ordering physicians, clinics, or individuals, and allocated overhead, including information technology, or IT, costs. Infrastructure expenses include allocated facility and related occupancy costs. Costs associated with the performance of molecular tests are recorded as tests are processed. We have implemented and continue to monitor mitigation strategies to address the work-from-home policies and other operational limitations mandated by federal, state, and local governments as a result of the COVID-19 pandemic. While largely yet to be determined, these mitigation strategies may cause increases in any or all of the aforementioned costs. The amount of cost of sales is related to our volume of accessioned tests, which is directly related to consumption of reagents and other laboratory support services. Therefore, growth in accessioned volume of tests results in increased cost of sales on an aggregate basis and potential modest reductions in cost of sales on a per-test basis.

Research and Development

Research and development expenses consist primarily of costs associated with performing research and development activities to improve our tests, to reduce product costs, and to develop new products including our preeclampsia test and our precision medicine product candidates. Research and development expenses also consist of personnel expenses, including salaries, bonuses, stock-based compensation expense, benefits, consulting costs, and allocated overhead costs. Research and development costs are expensed as incurred.

We plan to continue investing in research and development activities for the foreseeable future as we focus on developing innovative products, including our preeclampsia test and our precision medicine product candidates, through preclinical studies and clinical trials. We also expect our investment in research and development to increase as we pursue regulatory approval of our product candidates and as we seek to expand our pipeline of product candidates.

Due to the impact of the COVID-19 pandemic and work-from-home policies and other operational limitations mandated by federal, state, and local governments as a result of the pandemic, certain of our research and development activities have been delayed and may be further delayed until such operational limitations are lifted or if they are reinstated. While we have implemented and

continue to monitor mitigation strategies, where possible, certain preclinical and clinical activities are suspended during the implementation of these policies and will necessarily incur some delay following the resumption of normal operations.

Selling and Marketing

Selling and marketing expenses consist primarily of personnel costs, including salaries, commissions, bonuses, stock-based compensation expense, and benefits for our sales and marketing team. Selling and marketing expenses also include costs for communication, advertising, conferences, other marketing events, and allocated overhead costs. We expect selling and marketing expense to continue to increase as we increase the size of our selling and marketing function to support the growth of our business. We have implemented and continue to monitor mitigation strategies to address the work-from-home policies and other operational limitations mandated by federal, state, and local governments as a result of the COVID-19 pandemic. While largely yet to be determined, these mitigation strategies include virtual meetings and mobile phlebotomy services for patients preferring not to visit a physician's office. These strategies and others may cause increases in our sales and marketing costs.

General and Administrative

General and administrative expenses consist primarily of personnel costs, including salaries, bonuses, stock-based compensation expense, and benefits, for our finance and accounting, legal, human resources, and other administrative teams. Additionally, these expenses include professional fees of audit, legal, and recruiting services. Following the listing of our common stock on Nasdaq, we expect to continue to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a U.S. securities exchange and costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC. In addition, as a public company, we expect to incur increased expenses in the areas of insurance, investor relations, and professional services. Furthermore, we expect to incur expenses related to maintaining compliance with the stipulations of the government settlement and the legal costs associated with the Natera lawsuit, the Ravgen lawsuit and IPO related litigation described in Part II, Item 1. "Legal Proceedings" in this Quarterly Report. As a result, we expect the dollar amount of our general and administrative expenses to increase for the foreseeable future. We expect, however, that our general and administrative expenses will decrease as a percentage of our revenue over time, although the percentage may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our general and administrative expenses.

Interest Expense

Interest expense is primarily attributable to borrowings under our Credit Agreement (as defined below). Interest expense is also attributable to our outstanding mortgages and capital lease agreements.

Interest and Other Income (Expense), Net

Interest and other income, net primarily consists of changes in fair value of our embedded derivative liability related to the Convertible Notes and interest income earned from our cash and cash equivalents, and changes in fair value of short-term investments.

Income Tax Provision

We account for income taxes under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is more than 50% likely of being realized. Changes in recognition or measurement are recognized in the period in which the change in judgment occurs. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Due to losses generated in the past and projected future taxable losses anticipated in the future, we established a 100% valuation allowance on net deferred tax assets.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, was enacted. The CARES Act includes several significant provisions for corporations, including the usage of net operating losses, interest deductions and payroll benefits. Corporate taxpayers may carryback net operating losses, or NOLs, originating during 2018 through 2020 for up to five years. During the three months ended March 31, 2020, we recorded a discrete tax benefit of $37.7 million related to the NOL carryback provisions available under the CARES Act legislation for taxes paid in years 2013, 2014, 2015, and 2017. We agreed to pay 65% of any tax refund received in excess of $5.0 million in a single year, along with other civil settlements, damages awards, and tax refunds, to accelerate payments to the government in connection with our government settlement. In 2020, we received a tax refund of $37.7 million related to the NOL carryback provisions available under the CARES Act and paid a total of $37.0 million to the government in connection with our government settlements. See Part II, Item 1. “Legal Proceedings—Federal Investigations” in this Quarterly Report.

Results of Operations.

Comparison of Three Months Ended March 31, 2021 and 2020

	Three Months Ended March 31,	
	2021	2020
Statement of Operations Data:	(in thousands) (unaudited)	
Revenues	$ 24,526	$ 16,828
Cost of sales	22,234	26,570
Gross profit (loss)	2,292	(9,742)
Operating expenses:		
Research and development	11,673	11,240
Selling and marketing	14,648	14,436
General and administrative	22,219	17,108
Total operating expenses	48,540	42,784
Loss from operations	(46,248)	(52,526)
Interest expense	(3,520)	(2,302)
Gain on warrant liability	2,650	—
Interest and other income (expense), net	14,854	(20)
Loss before income taxes	(32,264)	(54,848)
Income tax benefit	—	(37,696)
Net loss	$ (32,264)	$ (17,152)

	Three Months Ended March 31,	
	2021	2020
Percentage of Revenue Data:	(unaudited)	
Revenues	100%	100%
Cost of sales	91	158
Gross profit (loss)	9	(58)
Operating expenses:		
Research and development	48	67
Selling and marketing	60	86
General and administrative	90	102
Total operating expenses	198	254
Loss from operations	(189)	(312)
Interest expense	(14)	(14)
Gain on warrant liability	11	—
Interest and other income (expense), net	61	(0)
Net loss	(131)%	(326)%
Income tax provision (benefit)	—	(224)
Net loss	(131)%	(102)%

Revenue

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Revenues	$ 24,526	$ 16,828	$ 7,698	45.7%

Revenue was $24.5 million for the three months ended March 31, 2021, compared to $16.8 million for the three months ended March 31, 2020, an increase of $7.7 million, or 45.7%.

The increase in revenue was primarily attributable to a refund reserve of $13.2 million related to the settlement with the DOJ and the participating State AGs in the first quarter of 2020 partially offset by a $7.3 million decrease in core tests due to several factors including the COVID-19 pandemic, sales representative turnover, and customer attrition. The remainder is due to an increase in revenue from molecular pathology test products resulting from an increase in COVID-19 testing volumes in the first quarter of 2021 as compared to 2020.

Cost of Sales

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Cost of sales	$ 22,234	$ 26,570	$ (4,336)	(16.3)%

Cost of sales was $22.2 million for the three months ended March 31, 2021, compared to $26.6 million for the three months ended March 31, 2020, a decrease of $4.3 million, or 16.3%.

The decrease in cost of sales was primarily due to a decrease in core test volumes during the three months ended March 31, 2021 compared to the three months ended March 31, 2020 as a result of the COVID-19 pandemic, as well as a reduction in indirect overhead allocations and lower royalty fees, partially offset by an increase in molecular pathology test volumes as a result of the COVID-19 pandemic.

Research and Development Expenses

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Research and development	$ 11,673	$ 11,240	$ 433	3.9%

Research and development expenses were $11.7 million for the three months ended March 31, 2021, compared to $11.2 million for the three months ended March 31, 2020, an increase of $0.5 million, or 3.9%.

The increase in research and development expenses was primarily attributable to a $1.0 million increase in salary and benefits, a $0.6 million increase in professional fees related to product design, offset by a $1.0 million decrease in supplies costs and other expenses. The increase in salary and benefits is mainly driven by additional stock-based compensation expense due to the Company’s initial public offering in June of 2020. The increase in professional fees is mainly drive by higher product design fees and engineering work for precision medicine.

The following table summarizes the changes in research and development expenses from the three months ended March 31, 2021, to the three months ended March 31, 2020, with costs broken down by program:

	Three Months Ended March 31,	
	2021	2020
	(in thousands) (unaudited)	
Molecular testing	$ 6,326	$ 7,051
Precision medicine	5,347	4,189
Total research and development expenses	$ 11,673	$ 11,240

Selling and Marketing Expenses

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Selling and marketing	$ 14,648	$ 14,436	$ 212	1.5%

Selling and marketing expenses were $14.6 million for the three months ended March 31, 2021, compared to $14.4 million for the three months ended March 31, 2020, an increase of $0.2 million, or 1.5%.

The increase in selling and marketing expenses was primarily attributable to a $0.6 million increase in professional fees and $0.3 million increase in computers and software costs, offset by a $0.6 million decrease in travel and entertainment costs due to a reduction in travel during the three months ended March 31, 2021 as a result of the COVID-19 related restrictions and associated work-from-home policies.

General and Administrative Expenses

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
General and administrative	$ 22,219	$ 17,108	$ 5,111	29.9%

General and administrative expenses were $22.2 million for the three months ended March 31, 2021, compared to $17.1 million for the three months ended March 31, 2020, an increase of $5.1 million, or 29.9%.

The increase in general and administrative expenses was primarily attributable to a $2.1 million increase in salaries and personnel-related costs, a $1.5 million increase in our business insurance costs, and a $0.9 million increase in reimbursement and credentialing service costs.

Interest Expense

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Interest expense	$ (3,520)	$ (2,302)	$ (1,218)	52.9%

Interest expense increased by $1.2 million, or 52.9%, from the three months ended March 31, 2020 to the three months ended March 31, 2021 due to the extinguishment of the Term Loan and the issuance of the Convertible Notes and amortization of the debt discount.

Gain on Warrant Liability

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Gain on warrant liability	$ 2,650	$ —	$ 2,650	*

* - The change is more than 100%

Gain on warrant liability increased by $2.6 million, or 100%, from the three months ended March 31, 2020 to the three months ended March 31, 2021. The increase was due to the remeasurement of a warrant liability at March 31, 2021 based on warrants issued in February 2021.

Interest and Other Income (Expense), Net

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Interest and other income (expense), net	$ 14,854	$ (20)	$ 14,874	*

* - The change is more than 100%

Interest and other income, net, was $14.9 million for the three months ended March 31, 2021, compared to interest and other expense, net of less than $0.1 million for the three months ended March 31, 2020. This change was primarily due to a $14.9 million decrease in fair value of our embedded derivative liability related to the Convertible Notes.

Income Tax Benefit

	Three Months Ended March 31,		Increase/	
	2021	2020	(Decrease)	% Change
	(in thousands) (unaudited)			
Income tax benefit	$ —	$ (37,696)	$ 37,696	*

* - The change is more than 100%

Income tax benefit was zero for the three months ended March 31, 2021, while income tax benefit was $37.7 for the three months ended March 31, 2020. The tax benefit during the three months ended March 31, 2020 was recorded due to the net operating loss carryback provisions available under the CARES Act legislation enacted in March 2020, which did not occur again in the first quarter of 2021. The Company established a full valuation allowance on net deferred tax assets due to losses generated in 2018 and projected taxable losses anticipated in the future. Due to the valuation allowance on deferred tax assets, no tax benefit was recorded for our net loss during the three months ended March 31, 2021.

Liquidity and Capital Resources.

Since our inception, our primary sources of liquidity have been generated by our operations, sales of common stock, preferred stock, warrants to purchase common stock and preferred stock, and cash from debt financings, including Convertible Notes.

As of March 31, 2021, we had $65.3 million of cash and cash equivalents, $159.2 million of outstanding Convertible Notes, and mortgages outstanding of $3.0 million. Our accumulated deficit as of March 31, 2021, was $573.5 million. For the three months ended March 31, 2021, we had a net loss of $32.3 million and cash used in operations of $48.6 million. Our primary requirements for liquidity have been to fund our working capital needs, capital expenditures, dividends, research and development expenses, and general corporate needs.

Based on our planned operations, we do not expect that our current cash and cash equivalents will be sufficient to fund our operations for at least 12 months from the issuance date of the condensed consolidated financial statements for the three months ended March 31, 2021. We intend to raise additional capital through equity offerings and/or debt financings or from other potential sources of liquidity, which may include new collaborations, licensing or other commercial agreements for one or more of our research programs or patent portfolios. Adequate funding, if needed, may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or other operations. If any of these events occur, our ability to achieve our operational goals would be materially and adversely affected. Our future capital requirements and the adequacy of available funds will depend on many factors, including those described in "Risk Factors." Depending on the severity and direct impact of these factors on us, we may be unable to secure additional financing to meet our operating requirements on terms favorable to us, or at all. Our ability to raise additional funds may be adversely impacted by potential worsening global economic conditions and the recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from the ongoing COVID-19 pandemic.

Credit and Security Agreements and Series B Preferred Stock,

On October 27, 2017, we entered into a credit and security agreement, or the Credit Agreement, with a fund managed by Athyrium, as collateral agent and a lender. The Credit Agreement provided for a Term Loan of $75.0 million, the issuance of Series B Preferred Stock, and the issuance of a warrant to purchase Series B Preferred Stock, or the Series B Preferred Stock Purchase Warrant. The Credit Agreement was discharged in December 2020 in connection with the offering of Convertible Notes described below.

During the three months ended March 31, 2021 and 2020, we recognized interest expense on the Term Loan of $0 and $2.3 million, respectively. The Term Loan was extinguished in December 2020.

In connection with the IPO, on June 18, 2020, the Series B Preferred Stock Purchase Warrant became exercisable for 400,160 shares of common stock.

On August 27, 2019, we entered into a Series B Preferred Stock Purchase Agreement with Athyrium Opportunities III Acquisition LP, a fund managed by Athyrium, pursuant to which we issued 9,090,910 shares of Series B Preferred Stock at $2.75 per share for an aggregate purchase price of $25.0 million. A 1.283636364-for-1 stock split for our Series B Preferred Stock shares and Series B Preferred Stock Purchase Warrant issued and outstanding previously was effected on August 27, 2019 pursuant to an amendment and restatement of our amended and restated certificate of incorporation. As a result of the stock split, we issued an additional 4,017,512 shares of Series B Preferred Stock and adjusted the Series B Preferred Stock Purchase Warrant to be a warrant to purchase 1,818,182 shares of Series B Preferred Stock. On August 27, 2019, we executed an exchange agreement with our Series A-1 Preferred Stock holders, pursuant to which 1,500,000 outstanding shares of Series A-1 Preferred Stock were exchanged for 35,664,240 shares of Series B Preferred Stock.

On November 12, 2019, we entered into a Series B Stock Preferred Stock Purchase Agreement, or the 2019 Series B Stock Purchase Agreement, with Athyrium Opportunities III Acquisition 2 LP, a fund managed by Athyrium, pursuant to which we issued an additional 11,111,111 shares of Series B Preferred Stock at $2.25 per share for an aggregate purchase price of $25.0 million. A 1.22222222-for-1 stock split for our Series B Preferred Stock shares and Series B Preferred Stock Purchase Warrant issued and outstanding previously was effected on November 12, 2019, pursuant to an amendment and restatement of our amended and restated certificate of incorporation. The conversion price of the Series B Preferred Stock and exercise price of the outstanding Series B Preferred Stock Purchase Warrant were lowered from $2.75 to $2.25 per share (or $13.90 per share as a result of the reverse stock split effected on June 10, 2020). As a result of the stock split effected on November 12, 2019, we issued an additional 13,985,993 shares of Series B Preferred Stock and adjusted the Series B Preferred Stock Purchase Warrant to be a warrant to purchase 2,222,222 shares of Series B Preferred Stock.

On November 22, 2019, we completed an additional equity financing pursuant to the 2019 Series B Stock Purchase Agreement executed on November 12, 2019 with Beaver Creek Intermediate Fund, Ltd., an existing investor and Dr. Stylli, our Chairman and Chief Executive Officer, for an aggregate purchase price of $6.1 million. We issued an aggregate of 2,722,222 shares of Series B Preferred Stock at a purchase price of $2.25 per share.

On December 19, 2019, we completed an additional equity financing pursuant to the 2019 Series B Stock Purchase Agreement executed on November 12, 2019 with Athyrium Opportunities III Acquisition 2 LP for an aggregate purchase price of $25.0 million. We issued on aggregate of 11,111,111 shares of Series B Preferred Stock at a purchase price of $2.25 per share.

On February 28, 2020, we completed an additional equity financing pursuant to the 2019 Series B Stock Purchase Agreement executed on November 12, 2019 with Athyrium Opportunities III Acquisition 2 LP and Dr. Stylli, our Chairman and Chief Executive Officer, for an aggregate purchase price of $11.4 million. We issued an aggregate of 5,066,666 shares of Series B Preferred Stock at a purchase price of $2.25 per share.

On March 31, 2020, we entered into the First Amendment to the Credit Agreement, or the Credit Agreement Amendment, with the collateral agent and lender party thereto, providing for the payment of interest due and payable as of March 31, 2020 in shares of our Series B Preferred Stock. Pursuant to the Credit Agreement Amendment, we concurrently entered into a Series B Preferred Stock Subscription Agreement, or the Subscription Agreement, with the lender, which provided for the issuance of 967,130 shares of Series B Preferred Stock at a subscription price of $2.25 per share, as payment for interest due and payable as of March 31, 2020 and all applicable fees as set forth in the Credit Agreement Amendment.

On April 3, 2020, we entered into a Series B Preferred Stock Purchase Agreement with Athyrium Opportunities III Acquisition 2 LP, pursuant to which we issued an additional 4,444,444 shares of Series B Preferred Stock at $2.25 per share for an aggregate purchase price of $10.0 million.

On May 8, 2020, we entered into a Note Purchase Agreement with Athyrium Opportunities 2020 LP, a fund managed by Athyrium, pursuant to which we issued and sold an unsecured convertible promissory note, or the Convertible Note, with an annual interest rate of 8.0% and in an aggregate principal amount of $15.0 million. In June 2020, in connection with completion of our IPO, the Note was converted into 1,250,000 shares of common stock and all obligations under the Convertible Note were extinguished.

Convertible Notes

In December 2020, in connection with a private offering of convertible notes pursuant to Rule 144A under the Securities Act, we issued a total of $168.5 million principal amount of our Convertible Notes. The Convertible Notes were issued pursuant to, and are governed by, an indenture, dated as of December 7, 2020, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee, or the Indenture. The Convertible Notes are due on December 1, 2025, unless earlier repurchased, redeemed or converted, and accrue interest at a rate per annum equal to 7.25% payable semi-annually in arrears on June 1 and December 1 of each year, with the initial payment on June 1, 2021. During the three months ended March 31, 2021, we recognized interest expense on the Convertible Notes of $3.5 million.

The Convertible Notes are our senior, unsecured obligations and are (i) equal in right of payment with our existing and future senior, unsecured indebtedness; (ii) senior in right of payment to our existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to our existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent we are not a holder thereof) preferred equity, if any, of our subsidiaries.

At any time, noteholders may convert their Convertible Notes at their option into shares of our common stock, together, if applicable, with cash in lieu of any fractional share, at the then-applicable conversion rate. The initial conversion rate is 278.0094 shares of common stock per $1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately $3.60 per share of common stock. Noteholders that convert their Notes before December 1, 2022 will, in certain circumstances, be entitled to an additional cash payment representing the present value of any remaining interest payments on the Convertible Notes through December 1, 2022. The conversion rate and conversion price are subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a Make-Whole Fundamental Change (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Convertible Notes are redeemable, in whole and not in part, at our option at any time on or after December 1, 2023, at a cash redemption price equal to the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the our common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date we send the related redemption notice; and (ii) the trading day immediately before the date we send such notice. In addition, calling the Convertible Notes will constitute a Make-Whole Fundamental Change, which will result in an increase to the conversion rate in certain circumstances for a specified period of time.

The Convertible Notes have customary provision relating to the occurrence of Events of Default (as defined in the Indenture), which include the following: (i) certain payment defaults on the Convertible Notes (which, in the case of a default in the payment of interest on the Convertible Notes, will be subject to a 30-day cure period); (ii) our failure to send certain notices under the Indenture within specified periods of time; (iii) our failure to comply with certain covenants in the Indenture relating to the Company's ability to consolidate with or merge with or into, or sell, lease or otherwise transfer, in one transaction or a series of transactions, all or substantially all of our assets and assets of our subsidiaries, taken as a whole, to another person; (iv) a default by us in our other obligations or agreements under the Indenture or the Convertible Notes if such default is not cured or waived within 60 days after notice is given in accordance with the Indenture; (v) certain defaults by us or any of our subsidiaries with respect to indebtedness for borrowed money of at least $7,500,000; (vi) the rendering of certain judgments against us or any of our subsidiaries for the payment of at least $7,500,000, where such judgments are not discharged or stayed within 60 days after the date on which the right to appeal has expired or on which all rights to appeal have been extinguished; and (vii) certain events of bankruptcy, insolvency and reorganization involving us or any of our significant subsidiaries.

Mortgages

In January 2014, we executed a mortgage with Comerica Bank for $1.8 million for the purpose of acquiring a facility located in Ann Arbor, Michigan, which was previously leased by us and is used primarily for laboratory testing and research purposes. The outstanding balance was $1.3 million as of each of March 31, 2021 and December 31, 2020. The mortgage matures in 2024 and requires monthly principal and interest payments at a fixed interest rate of 2.94% plus a floating rate at LIBOR. We also have a mortgage with American Bank of Commerce (originally executed in February 2008) outstanding on Avero Diagnostic's property located in Lubbock, Texas, which is used primarily for laboratory testing. The outstanding balance was $1.7 million as of each of March 31, 2021 and December 31, 2020. The mortgage matures in 2029 and requires monthly principal and interest payments at an interest rate of 3.25%.

Cash Flows

Our primary uses of cash are to fund our operations and research and development as we continue to grow our business. We expect to continue to incur operating losses in future periods as our operating expenses increase to support the growth of our business. We expect that our research and development, selling and marketing, and general and administrative expenses will continue to increase as we expand our marketing efforts and increase our internal sales force to drive increased adoption of and reimbursement for our tests, continue our research and development efforts with respect to our current tests and further develop our product pipeline, including our preeclampsia test and precision medicine products under development. Cash used to fund operating expenses is impacted by the timing of when we pay expenses, as reflected in the change in our outstanding accounts payable and accrued expenses.

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2021	2020
Cash used in operating activities	$ (48,564)	$ (30,886)
Cash used in investing activities	(463)	(1,094)
Cash provided by financing activities	22,227	10,584

Operating Activities

Net cash used in operating activities in the three months ended March 31, 2021 of $48.6 million was primarily attributable to a $32.3 million net loss, adjusted for $12.9 million of non-cash charges, primarily driven by $14.8 million change in fair value related to the Convertible Notes, $2.6 million of change in fair value of warrant liability, $2.6 million of stock-based compensation expense, and $1.2 million of depreciation and amortization expense. The net cash outflow from changes in operating assets and liabilities of $3.7 million was attributable to a $2.2 million decrease in accounts payable, a $0.9 million increase in prepaid expenses and other, offset by an $0.5 million decrease in accrued expenses and other current liabilities.

Net cash used in operating activities in the three months ended March 31, 2020 of $30.9 million was primarily attributable to a $17.2 million net loss. The net cash outflow was also attributable to a $37.7 million increase in income tax receivables due to an NOL carryback recorded under the CARES Act legislation, and a $25.4 million decrease in accrued expenses and other current liabilities related to settlement accruals for payments due to third-party payors. This decrease was partially offset by a $36.9 million increase in other long-term liabilities as a result of the accrual for settlement negotiations with the Assistant U.S. Attorney for the Southern District of New York for $49.0 million. The settlement negotiations during the three months ended March 31, 2020 resulted in an increase of $13.2 million to the total settlement accrual, and the reclassification of $36.9 million from accrued expenses and other current liabilities to other long-term liabilities.

Investing Activities

Net cash used in investing activities during the three months ended March 31, 2021 of $0.5 million was attributable to the purchase of property and equipment. Net cash used in investing activities during the three months ended March 31, 2020 of $1.1 million was primarily for the purchase of property and equipment.

Financing Activities

Net cash provided by financing activities during the three months ended March 31, 2021 of $22.2 million was primarily attributable to $11.6 million in net proceeds from the issuance of common stock, and $12.8 million in net proceeds from the issuance

of common stock warrants, partially offset by $1.9 million in payments for insurance financing, and $0.2 million in principal payments on mortgages payable and capital lease obligations. Net cash provided by financing activities during the three months ended March 31, 2020 of $10.6 million was primarily attributable to $11.4 million in proceeds from the issuance of Series B Preferred Stock and $0.1 million in proceeds from the issuance of common stock, partially offset by $0.2 million in principal payments on capital lease obligations, $0.6 million in payments for deferred financing costs and $0.1 million in principal payments on mortgages payable.

Off-Balance Sheet Arrangements.

As of March 31, 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Significant Judgments and Estimates.

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in conformity with GAAP. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions about future events that affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenue and expenses. These estimates and assumptions are based on management's best estimates and judgment. Management regularly evaluates its estimates and assumptions using historical experience and other factors; however, actual results could differ materially from these estimates and could have an adverse effect on our financial statements.

During the three months ended March 31, 2021, there were no significant changes to the information discussed under "Critical Accounting Policies and Significant Judgments and Estimates" included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Form 10-K for the year ended December 31, 2020.

Recent Accounting Pronouncements.

Refer to Note 2, "Summary of Significant Accounting Policies" to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for information on recently issued accounting pronouncements.

JOBS Act Accounting Election.

We are an emerging growth company, as defined in the JOBS Act. Under this act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to use this extended transition period and, as a result, our financial statements may not be comparable to companies that comply with public company effective dates. We also intend to rely on other exemptions provided by the JOBS Act, including without limitation, not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company, as defined by Rule 12b-2 under the Securities and Exchange Act of 1934 and in Item 10(f)(1) of Regulation S-K, and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Our management, with the participation and supervision of our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, or the Exchange Act) as of the end of the period covered by this Quarterly Report. Based on that evaluation, our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chairman and Chief Executive Officer and our Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Federal Investigations

In April 2018, we received a civil investigative demand from an Assistant U.S. Attorney for the Southern District of New York, or SDNY, and a HIPAA subpoena issued by an Assistant U.S. Attorney for the Southern District of California, or SDCA. In May 2018, we received a subpoena from the State of New York Medicaid Fraud Control Unit.

On July 21, 2020, July 23, 2020, and October 1, 2020, we entered into agreements with certain governmental agencies and the 45 states participating in the settlement, or the State AGs, to resolve, with respect to such agencies and State AGs, all of such agencies' and State AGs' outstanding civil, and, where applicable, federal criminal investigations regarding our discontinued legacy billing practices for our non-invasive prenatal tests and microdeletion tests and the provision of alleged kickbacks or inducements to physicians and patients. Specifically, we entered into:

- a civil settlement agreement, effective July 23, 2020, with the DOJ through SDNY, and on behalf of the Office of Inspector General of the Department of Health and Human Services, or the OIG, and with the relator named therein, or the SDNY Civil Settlement Agreement;
- a civil settlement agreement, effective July 23, 2020, with the DOJ through SDCA, and on behalf of the Defense Health Agency, the Tricare Program and the Office of Personnel Management, which administers the Federal Employees Health Benefits Program, or the SDCA Civil Settlement Agreement;
- a non-prosecution agreement, effective July 21, 2020, with SDCA, or the Non-Prosecution Agreement, in resolution of all criminal allegations;
- a corporate integrity agreement, effective July 21, 2020, with the OIG, or the Corporate Integrity Agreement; and
- civil settlement agreements, effective October 1, 2020, with the State AGs, or the State Settlement Agreements.

We refer to the SDNY Civil Settlement Agreement, the SDCA Civil Settlement Agreement, the Non-Prosecution Agreement, the Corporate Integrity Agreement, and the State Settlement Agreements collectively as the Agreements.

SDNY Civil Settlement Agreement

Pursuant to the SDNY Civil Settlement Agreement, we are required to pay a settlement amount of approximately $19.4 million, which includes approximately $9.7 million designated as restitution to the U.S. federal government. During the three months ended March 31, 2021, the Company did not make any settlement payments. During the year ended December 31, 2020, we paid approximately $14.7 million. The outstanding settlement amount is payable in two annual installments as follows:

- approximately $2.0 million on or before December 31, 2021; and
- approximately $2.8 million on or before December 31, 2022.

The remaining amounts payable to the government will be subject to interest at a rate of 1.25% per annum, and any or all amounts may be paid earlier at our option.

Furthermore, we have agreed that, if during calendar years 2020 through 2023, and so long as amounts payable to the government remain unpaid, we receive any civil settlement, damages awards, or tax refunds, to the extent that the amounts exceed $5.0 million in a calendar year, we will pay 26% of the amount received in such civil settlement, damages award, or tax refunds as an accelerated payment of the scheduled amounts set forth above, up to a maximum total acceleration of $4.1 million. During the year ended December 31, 2020, we received tax benefit payments of approximately $37.7 million and made accelerated payments of $4.1 million. We did not receive any tax benefit payments in the three months ended March 31, 2021.

Additionally, under the SDNY Civil Settlement Agreement, the U.S. federal government and the relator agreed to dismiss all civil claims asserted by the relator under the qui tam provisions of the federal False Claims Act.

SDCA Civil Settlement Agreement

Pursuant to the SDCA Civil Settlement Agreement, we are required to pay a settlement amount of approximately $16.4 million, which includes approximately $10.0 million designated as restitution to the U.S. federal government. During the three months ended March 31, 2021, the Company did not make any settlement payments. During the year ended December 31, 2020, we paid approximately $12.5 million. The outstanding settlement amount is payable in two annual installments as follows:

- approximately $1.7 million on or before December 31, 2021; and
- approximately $2.2 million on or before December 31, 2022.

The remaining amounts payable to the government will be subject to interest at a rate of 1.25% per annum, and any or all amounts may be paid earlier at our option.

On July 21, 2020, we issued a promissory note to the U.S. federal government for the full settlement amount in connection with the SDCA Civil Settlement Agreement, or the Promissory Note. The Promissory Note contains customary events of default and related acceleration of payment provisions. In addition, the Promissory Note provides, among other terms, that, if during calendar years 2020 through 2023, and so long as amounts payable to the government remain unpaid, we receive any civil settlement, damages awards, or tax refunds, to the extent that the amounts exceed $5.0 million in a calendar year, we will pay 22% of the amount received in such civil settlement, damages award, or tax refunds as an accelerated payment of the scheduled amounts set forth above, up to a maximum total acceleration of approximately $3.4 million. During the year ended December 31, 2020, we received tax benefit payments of approximately $37.7 million and made accelerated payments of $3.4 million. We did not receive any tax refunds in the three months ended March 31, 2021.

Non-Prosecution Agreement

Effective July 21, 2020, we entered into the Non-Prosecution Agreement, pursuant to which we agreed with the DOJ to (i) pay the restitution provided for under the SDCA Civil Settlement Agreement, (ii) not commit any felonies, (iii) continue to implement a compliance and ethics program designed to prevent and detect violations of applicable fraud and kickback laws throughout our operations and (iv) fulfill certain other disclosure, reporting and cooperation obligations. The DOJ agreed that it will not prosecute us for any conduct described in the Non-Prosecution Agreement provided that we perform our obligations under the Non-Prosecution Agreement during the period from July 21, 2020 through July 21, 2021. The Non-Prosecution Agreement provides that the DOJ may unilaterally, upon notice to us, extend the term of the agreement in 6-month increments, for a maximum total term of 24 months (that is, two 6-month extensions).

Corporate Integrity Agreement

In connection with the resolution of the investigated matters, and in exchange for the OIG's agreement not to exercise its authority to permissively exclude us from participating in federal healthcare programs, effective July 21, 2020, we entered into a five-year Corporate Integrity Agreement with the OIG. The Corporate Integrity Agreement requires, among other matters, that we maintain a Compliance Officer, a Compliance Committee, board review and oversight of certain federal healthcare compliance matters, compliance programs, and disclosure programs; provide management certifications and compliance training and education; engage an independent review organization to conduct claims and arrangements reviews; and implement a risk assessment and internal review process. If we fail to comply with our obligations under the Corporate Integrity Agreement, we could face monetary penalties and/or be excluded from participating in federal healthcare programs.

State Settlement Agreements

Effective October 1, 2020, we entered into agreements with the State AGs with respect to the investigated matters. The State Settlement Agreements require the Company to pay a settlement amount of approximately $13.2 million to the participating states. The State Settlement Agreements include acceleration provisions similar to the SDNY Civil Settlement Agreement and the SDCA Civil Settlement Agreement described above upon our receipt of civil settlements, damages awards, and tax refunds, with the amount to be accelerated and the timing of accelerated payment subject to such receipts. During the year ended December 31, 2020, we received tax benefit payments of approximately $37.7 million and made total payments of approximately $9.7 million. We did not receive any tax benefit payments in the three months ended March 31, 2021. The outstanding settlement amount is payable in three installments as follows:

- approximately $1.4 million on or before December 31, 2021;
- approximately $1.9 million on or before December 31, 2022; and
- approximately $0.2 million on or before December 31, 2023.

Settlement Accruals

As of December 31, 2020, we had accrued an aggregate of $12.1 million associated with a potential settlement with the DOJ and the participating State AGs within accrued expenses and other current liabilities and as a reduction of revenue as reflected on the consolidated balance sheet of the Company as of December 31, 2020 and consolidated statement of operations for the year ended December 31, 2020. In the quarter ended March 31, 2020, the Company had accrued $13.2 million with respect to the total amount to be paid under the agreement in principle to the DOJ and the participating State AGs, and additional amounts for related costs as of and for the quarterly period ended March 31, 2020. As of March 31, 2021, the Company's accrual consists of $5.0 million in accrued expenses and other current liabilities and $7.1 million in other long-term liabilities.

Natera Lawsuit

On June 17, 2020, Natera, Inc., or Natera, filed suit in the Western District of Texas (W.D. Texas Civil Action No. 6:20-cv-532) asserting our infringement of six Natera patents based on a portion of our NIPT product offering. On June 19, 2020, Natera filed a substantially similar second suit in the Northern District of Texas (N.D. Texas Civil Action No. 3:20-cv-1634). On July 31, 2020, Progenity filed a motion to dismiss the Western District of Texas case based on improper venue. The motion is fully briefed and remains pending before the Court. The Northern District of Texas case has been stayed until a decision with respect to the motion to dismiss is made.

On July 2, 2020, we filed a Complaint for Declaratory Judgment of Non-Infringement against Natera in the Southern District of California (S.D. California Civil Action No. 3:20-cv-1252). This case has been stayed pending the outcome of our venue motion in the Western District of Texas.

We believe that the claims in Natera's complaints are without merit, and we are vigorously defending against them.

Ravgen Lawsuit

On December 22, 2020, Ravgen, Inc., or Ravgen, filed suit in the District of Delaware (D. Del. Civil Action No. 1:20-cv-1734) asserting our infringement of two Ravgen patents. We responded to the complaint on March 23, 2021.

We believe the claims in Ravgen's complaint are without merit, and we are vigorously defending against them.

IPO Litigation

On June 23, 2020, we closed our initial public offering of our common stock, or the IPO. Lawsuits were filed on August 28, 2020 and September 11, 2020 against the Company, certain of its executive officers and directors, and the underwriters of the IPO. On December 3, 2020, the U.S. District Court for the Southern District of California consolidated the two actions, appointed Lin Shen, Lingjun Lin and Fusheng Lin to serve as Lead Plaintiffs, and approved Glancy Prongay & Murray LLP to be Lead Plaintiffs' Counsel. Lead Plaintiffs filed their amended complaint on February 4, 2021. It alleges that our registration statement and related prospectus for the IPO contained false and misleading statements and omissions in violation of the Securities Act of 1933 by failing to disclose that we (i) had overbilled government payors by $10.3 million and thus overstated our revenues for the full fiscal year 2019 and first quarter of 2020, and (ii) were allegedly suffering from material negative trends with respect to testing volumes, average selling prices for our tests, and revenues. Lead Plaintiffs seek certification as a class, unspecified compensatory damages, interest, costs and expenses including attorneys' fees, and unspecified extraordinary, equitable, and/or injunctive relief. Together with the underwriters of the IPO, we moved to dismiss the amended complaint on April 5, 2021. Lead Plaintiffs' opposition to the motion is due by June 4, 2021. We intend to continue to vigorously defend against these claims. Subject to a reservation of rights, we are advancing expenses subject to indemnification to the underwriters of the IPO.

Given the uncertainty of litigation, the preliminary stages of the Natera, Ravgen, and IPO litigations, and the legal standards that must be met for, among other things, success on the merits, we are unable to predict the ultimate outcome of these actions, and therefore cannot estimate the reasonably possible loss or range of loss, if any, that may result from these actions.

Item 1A. Risk Factors.

Our business is subject to various risks, including those described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020. Other than those set forth below, there have been no material changes from the risk factors disclosed in Item 1A of our Annual Report on Form 10-K.

The ongoing COVID-19 pandemic could further materially affect our operations, as well as the business or operations of third parties with whom we conduct business. Our business could be adversely affected by the effects of other future health epidemics or pandemics in regions where we or third parties on which we rely have significant business operations.

Our business and its operations, including but not limited to our laboratory operations, sales and marketing efforts, supply chain operations, research and development activities, and capital raising activities, could be adversely affected by health epidemics in regions where we have business operations, and such health epidemics could also cause significant disruption in the operations of third parties with whom we do business, including third parties upon whom we rely. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the U.S. government imposed restrictions on travel between the United States, Europe, and certain other countries. Beginning in March 2020, numerous state and local jurisdictions, including the jurisdictions where our headquarters and laboratories are located, have periodically imposed quarantines, shelter-in-place orders, executive, and similar government orders for their residents to control the spread of COVID-19. While vaccines have proven effective against SARS CoV-2, virus variants may cause a resurgence of COVID cases and vaccination rates may be insufficient to achieve herd immunity in locations where we conduct business.

In response to these public health directives and orders, we have implemented work-from-home policies for most of our employees. The effects of the executive orders, the shelter-in-place orders, and our work-from-home policies have negatively impacted, and may further negatively impact, productivity, and our preclinical and clinical programs and timelines, and disrupt our business in other ways, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. These and similar, and perhaps more severe, disruptions in our operations could negatively impact our business, operating results and financial condition. We continue to monitor state and local quarantine, shelter-in-place, executive, and similar government orders and will reopen our offices to allow employees to return to the office, as needed, in accordance with our reopening plan, which is based on a phased approach that is appropriately tailored for each of our offices, with a focus on state and local orders, employee safety and optimal work environment.

Quarantines, shelter-in-place, executive, and similar government orders, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur, related to COVID-19 or other infectious diseases, could impact personnel at third-party manufacturing facilities in the United States and other countries, or the availability or cost of materials we use or require to conduct our business, including product development, which would disrupt our supply chain. In particular, some of our suppliers of certain materials used in our laboratory operations and research and development activities are located in areas that are subject to executive orders and shelter-in-place orders. While many of these materials may be obtained from more than one supplier, port closures and other restrictions resulting from the COVID-19 pandemic or future pandemics may disrupt our supply chain or limit our ability to obtain sufficient materials to operate our business. To date, we are aware of certain suppliers for our research and development activities who have experienced operational delays directly related to the COVID-19 pandemic.

The spread of COVID-19, which has caused a broad impact globally, has affected and may further materially affect us economically, including a continuing and significant reduction in laboratory testing volumes. In addition, reimbursements for our tests have been delayed and may continue to be delayed if third-party payors' processing continues to be impacted by the COVID-19 pandemic and work-from-home policies and other operational limitations mandated by federal, state, and local governments as a result of the pandemic. While the potential economic impact brought by COVID-19, and the duration of such impact, may be difficult to assess or predict, the widespread pandemic has resulted in significant disruption of global financial markets, which could reduce our ability to access capital and negatively affect our future liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 and related government orders and restrictions could materially affect our business and the value of our common stock. Even after the COVID-19 pandemic has subsided, we may continue to experience an adverse impact to our business as a result of its global economic impact, including any recession that has occurred or may occur in the future.

In addition, our preclinical and clinical trials have been and may continue to be affected by the COVID-19 pandemic. For example, while we originally intended to commence our pilot clinical study for PIL Dx in 2020, that timeline was delayed due to circumstances and uncertainties created by the COVID-19 pandemic and we now expect to instead commence this study in 2021. If COVID-19 continues to spread in the United States and elsewhere, we may experience additional disruptions that could severely impact our business, preclinical studies and clinical trials, including:

- delays in receiving authorization from local regulatory authorities to initiate our planned clinical trials;
- delays or difficulties in enrolling patients in our clinical trials;
- delays or difficulties in clinical site initiation, including difficulties in recruiting clinical site investigators and clinical site staff;
- delays in clinical sites receiving the supplies and materials needed to conduct our clinical trials, including interruption in global shipping that may affect the transport of clinical trial materials;
- changes in local regulations as part of a response to the COVID-19 pandemic that may require us to change the ways in which our clinical trials are conducted, may result in unexpected costs, or may require us to discontinue the clinical trials altogether;
- diversion of healthcare resources away from the conduct of clinical trials, including the diversion of hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- interruption of key clinical trial activities, such as clinical trial site monitoring, due to limitations on travel imposed or recommended by federal or state governments, employers and others, or interruption of clinical trial subject visits and study procedures, the occurrence of which could affect the integrity of clinical trial data;

- risk that participants enrolled in our clinical trials will acquire COVID-19 while the clinical trial is ongoing, which could impact the results of the clinical trial, including by increasing the number of observed adverse events;
- interruptions or delays in preclinical studies due to restricted or limited operations at our research and development laboratory facilities;
- delays in necessary interactions with local regulators, ethics committees, and other important agencies and contractors due to limitations in employee resources or forced furlough of government employees;
- limitations in employee resources that would otherwise be focused on the conduct of our clinical trials, including because of sickness of employees or their families or the desire of employees to avoid contact with large groups of people;
- refusal of the U.S. Food and Drug Administration, or FDA, to accept data from clinical trials in affected geographies; and
- interruption or delays to our sourced discovery and clinical activities.

The COVID-19 pandemic continues to evolve rapidly. Although vaccines are now available and are being distributed globally, we cannot predict the full scope, duration and severity of disruptions resulting from the COVID-19 pandemic. The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, our clinical trials, healthcare systems, or the global economy as a whole.

We have incurred losses in the past, and we may not be able to achieve or sustain profitability in the future.

In the future, we expect to incur significant costs in connection with the development, approval, and commercialization of enhanced, improved, or new products. Even if we succeed in creating such products from these investments, those innovations still may fail to result in commercially successful products.

Other than revenues from our laboratory testing business, we do not expect to generate significant revenues from other sources in the immediate future. It is possible that we will not generate sufficient revenue from the sale of our products to cover our costs, including research and development expenses related to furthering our product pipeline, and achieve or sustain profitability. A significant element of our business strategy is to increase and maintain our in-network coverage with third-party payors; however, the negotiated fees under our contracts with third-party payors are typically lower than the list price of our tests, and in some cases the third-party payors with whom we contract may have negative coverage determinations for some of our offerings. Therefore, being in-network with third-party payors has had, and may continue to have, an adverse impact on our revenues especially if we are unable to increase the adoption of, and obtain favorable coverage determinations and reimbursement for, our products.

Since we or any collaborators or licensees may not successfully develop additional products, obtain required regulatory authorizations, manufacture products at an acceptable cost or with appropriate quality, or successfully market and sell such products with desired margins, our expenses may continue to exceed any revenues we may receive. Our operating expenses also will increase as and if, among other things:

- our earlier-stage product candidates move into later-stage clinical development, which is generally more expensive than early-stage development;
- additional technologies or products are selected for development;
- we pursue development of our molecular tests or other product candidates for new uses;
- we increase the number of patents we are prosecuting or otherwise expend additional resources on patent prosecution or defense; or
- we acquire or in-license additional technologies, product candidates, products, or businesses.

In response to the COVID-19 pandemic, we are providing molecular testing for diagnosing COVID-19 through Avero Diagnostics. The demand for such testing may decrease in the future and our investment in such testing capabilities may not pay off.

The COVID-19 pandemic has created an opportunity for our diagnostic tests and the Avero Diagnostics laboratory is providing molecular testing for diagnosing COVID-19. Avero Diagnostics' molecular testing utilizes certain third-party in-vitro diagnostics that have received Emergency Use Authorization, or EUA, from the FDA. The FDA has the authority to issue an EUA during a public health emergency if it determines that based on the totality of the scientific evidence that it is reasonable to believe that the product may be effective, that the known and potential benefits of a product outweigh the known and potential risks, that there is no adequate, approved, and available alternative, and if other regulatory criteria are met. These standards for marketing authorization are lower than if FDA had reviewed these tests under its traditional marketing authorization pathways, and we cannot assure you that these would be cleared or approved under those more onerous clearance and approval standards. Moreover, FDA's policies regarding EUAs can change unexpectedly, and FDA may revoke an EUA where it determines that the underlying health emergency no longer exists or warrants such authorization or if problems are identified with the authorized product. We cannot predict how long these authorizations will remain in place or what future demand may be for COVID-19 tests. FDA policies regarding diagnostic tests, therapies and other products used to diagnose, treat or mitigate COVID-19 remain in flux as the FDA responds to new and evolving public health information and clinical evidence. Changes to FDA regulations or requirements could require changes to authorized tests, necessitate additional measures, or make it impractical or impossible for Avero Diagnostics to continue utilizing these tests. The termination of any of the EUAs for the COVID-19 testing being run by Avero Diagnostics could adversely impact our business, financial condition and results of operations. There is no assurance that our COVID-19 diagnostic testing program will continue to be accepted by the market or that, when compared to our COVID-19 tests, other diagnostic tests will not become more accepted, produce quicker results, or be more accurate. Further, the longevity and extent of the COVID-19 pandemic is uncertain. Future demand for COVID-19 testing is becoming increasing difficult to predict due to various factors including but not limited to the increased availability of vaccinations, the number of individuals who choose to be vaccinated, the effectiveness of the various vaccinations against variants, the rate of new cases, and evolving government directives, laws, regulations and rules related to COVID-19 testing. In the long term, we expect that the COVID-19 pandemic will eventually dissipate and, as a result, the significance of COVID-19 testing to our business and financial results will decrease. As a result, the increase in revenue due to any increase in demand for these diagnostic tests may not be indicative of our future revenue.

Operating our business will require a significant amount of cash, and our ability to generate sufficient cash depends on many factors, some of which are beyond our control. We expect to need to raise additional capital, and if we cannot raise additional capital when needed, we may have to curtail or cease operations.

In the future, we expect to incur significant costs in connection with our operations, including but not limited to the development, marketing authorization, and commercialization of new tests, medical devices, therapeutics, and other products. These development activities generally require a substantial investment before we can determine commercial viability, and the proceeds from our initial public offering, or IPO, in June 2020, concurrent equity and convertible debt offerings in December 2020 and private placement in February 2021 will not be sufficient to fully fund these activities. We expect to need to raise additional funds through public or private equity or debt financings, collaborations or licensing arrangements to continue to fund or expand our operations.

Our actual liquidity and capital funding requirements will depend on numerous factors, including:

- the scope and duration of and expenditures associated with our discovery efforts and research and development programs, including for our precision medicine platform;
- the costs to fund our commercialization strategies for any product candidates for which we receive marketing authorization or otherwise launch and to prepare for potential product marketing authorizations, as required;
- the costs of any acquisitions of complementary businesses or technologies that we may pursue;
- potential licensing or partnering transactions, if any;
- our facilities expenses, which will vary depending on the time and terms of any facility lease or sublease we may enter into, and other operating expenses;
- the scope and extent of the expansion of our sales and marketing efforts;
- potential and pending litigation, potential payor recoupments of reimbursement amounts, and other contingencies;

- the commercial success of our products;
- our ability to obtain more extensive coverage and reimbursement for our tests and therapeutic products, if any, including in the general, average-risk patient population; and
- our ability to collect our accounts receivable.

The availability of additional capital, whether from private capital sources (including banks) or the public capital markets, fluctuates as our financial condition and market conditions in general change. There may be times when the private capital sources and the public capital markets lack sufficient liquidity or when our securities cannot be sold at attractive prices, or at all, in which case we would not be able to access capital from these sources. In addition, a weakening of our financial condition or deterioration in our credit ratings could adversely affect our ability to obtain necessary funds. Even if available, additional financing could be costly or have adverse consequences.

Additional capital, if needed, may not be available on satisfactory terms or at all. Furthermore, any additional capital raised through the sale of equity or equity-linked securities will dilute our stockholders' ownership interests and may have an adverse effect on the price of our common stock. In addition, the terms of any financing may adversely affect stockholders' holdings or rights. Debt financing, if available, may include restrictive covenants.

To minimize dilution to our equity holders, we are also exploring non-dilutive financing options, which could include licenses or collaborations and/or sales of certain assets or business lines. To the extent that we raise additional funds through collaborations and licensing arrangements, it may be necessary to relinquish some rights to our technologies or grant licenses on terms that may not be favorable to us. To the extent that we raise additional funds through strategic transactions, including a sale of one of our lines of business, we may not ultimately realize the value of or synergies from such transactions and our long-term prospects could be diminished as a result of the divestiture of these assets. We may also be required to use some or all of these sale proceeds to pay down indebtedness, which would then not serve to increase our working capital.

If we are not able to obtain adequate funding when needed, we may be required to delay development programs or sales and marketing initiatives. If we are unable to raise additional capital in sufficient amounts or on satisfactory terms, we may have to make reductions in our workforce and may be prevented from continuing our discovery, development, and commercialization efforts and exploiting other corporate opportunities. In addition, it may be necessary to work with a partner on one or more of our tests or products under development, which could lower the economic value of those products to us. If we engage in strategic transactions with respect to revenue-producing assets or business lines, our revenue may be adversely affected and such transactions could negatively affect the viability of our business. Each of the foregoing may harm our business, operating results, and financial condition, and may impact our ability to continue as a going concern.

Our outstanding debt, and any new debt, may impair our financial and operating flexibility.

As March 31, 2021, we had approximately $171.5 million of outstanding indebtedness, respectively, composed of the amount due under our convertible notes payable and mortgages payable. Certain of our debt agreements contain various restrictive covenants and our mortgages are secured by real estate assets.

The indenture for the convertible notes does not prohibit us or our subsidiaries from incurring additional indebtedness in the future, with certain exceptions. Under the convertible notes, we will not, and we will not permit any subsidiary of ours to, create, incur, assume or permit to exist any lien on any property or asset now owned or later acquired by us or any subsidiary that secures any indebtedness for borrowed money, other than (i) secured indebtedness for borrowed money in existence on the date of the indenture; (ii) permitted refinancing indebtedness incurred in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any secured indebtedness for borrowed money permitted by clause (i) of this sentence; and (iii) additional secured indebtedness for borrowed money that, in an aggregate principal amount (or accredited value, as applicable), does not exceed $15,000,000 at any time outstanding.

Accordingly, we may incur a significant amount of additional indebtedness in the future. Our current indebtedness and the incurrence of additional indebtedness could have significant negative consequences for our stockholders and our business, results of operations and financial condition by, among other things:

- making it more difficult for us to satisfy our obligations under our existing debt instruments;
- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing to fund our research, development, and commercialization activities, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flows from operations for the payment of principal and interest on our debt, reducing our ability to use our cash flows to fund working capital, research and development, and other general corporate requirements;
- limiting our flexibility to plan for, or react to, changes in our business and the industries in which we operate;
- further diluting our current stockholders as a result of issuing shares of our common stock upon conversion of our convertible notes; and
- placing us at a competitive disadvantage with competitors that are less leveraged than us or have better access to capital.

Our ability to make principal and interest payments will depend on our ability to generate cash in the future. Our business may not generate sufficient funds, and we may otherwise be unable to maintain sufficient cash reserves, to pay amounts due under our indebtedness, and our cash needs may increase in the future. If we do not generate sufficient cash to meet our debt service requirements and other operating requirements, we may need to seek additional financing. In that case, it may be more difficult, or we may be unable, to obtain financing on terms that are acceptable to us or at all.

In addition, any future indebtedness that we may incur may contain financial and other restrictive covenants that limit our ability to operate our business, raise capital or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full.

Beginning in the fourth quarter of 2020, we began to reallocate resources within our organization to align more closely with our business priorities. This included reducing the resources allocated to certain programs and refocusing our resources on other key areas of our business. We may experience difficulties in managing these changes to our organization and our future revenue and operating results may be adversely affected.

As of March 31, 2021, we had 637 full-time employees worldwide. In November 2020, we approved a reduction in force that resulted in the termination of approximately 9.5% of the Company’s workforce. The reduction in force was a component of our broader efforts to materially reduce our research and development expenses by focusing on key milestones and to limit progression of other costs to track our top line performance.

Over the past several years, we significantly expanded the size of our organization, particularly personnel within our sales and marketing and research and development groups. In addition, in connection with our transition to operating as a public company, we have added additional managerial, operational, sales, marketing, financial, and other personnel. The addition of employees imposes significant added responsibilities on members of management, including:

- identifying, recruiting, integrating, maintaining, and motivating additional employees;
- managing our internal development efforts effectively, while complying with our contractual obligations to contractors and other third parties; and
- improving our operational, financial, and management controls, reporting systems, and procedures.

Our future financial performance and our ability to successfully develop, market, and sell our products and product candidates will impact our needs in terms of personnel. Our management may also have to divert a disproportionate amount of attention away from day-to-day activities in order to devote a substantial amount of time to managing the appropriate allocation of our resources or further reductions in force, if necessary. The impact of decisions regarding personnel and the size of our workforce could

have adverse impacts on future revenue and operating results. Specifically, the ability of our sales force to positively impact our revenue may be delayed as a result of the time needed for onboarding and training of new sales force members.

Disruptions at the FDA and other government agencies caused by funding shortages or global health concerns could hinder their ability to hire, retain, or deploy key leadership and other personnel, or otherwise prevent new or modified products from being developed, cleared, or approved or commercialized in a timely manner or at all, which could negatively impact our business.

The ability of the FDA to review and clear or approve new products can be affected by a variety of factors, including government budget and funding levels, statutory, regulatory, and policy changes, the FDA's ability to hire and retain key personnel and accept the payment of user fees, and other events that may otherwise affect the FDA's ability to perform routine functions. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of other government agencies that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable. Disruptions at the FDA and other agencies may also slow the time necessary for new drugs, medical devices, and biologics or modifications to cleared or approved drugs, medical devices, and biologics to be reviewed and/or approved by necessary government agencies, which would adversely affect our business. For example, over the last several years, including for 35 days beginning on December 22, 2018, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA, have had to furlough critical FDA employees and stop critical activities.

Separately, in response to the COVID-19 pandemic, the FDA temporarily postponed routine surveillance inspections of domestic and foreign manufacturing facilities and inspections of foreign products. Beginning in July 2020, the FDA began conducting only prioritized domestic inspections, where possible to do so safely, and, on a case-by-case basis, "mission-critical" inspections. The FDA also expanded its use of other tools, when possible, to ensure the quality and safety of products being imported into the United States. In May 2021, the FDA announced steps the agency is taking to resume standard operational levels of inspection activities, including how it intends to prioritize domestic and foreign inspections that were not performed during the pandemic. Certain regulatory authorities outside the United States have adopted similar restrictions or other policy measures in response to the COVID-19 pandemic and it is uncertain when those restrictions will be lifted. If a prolonged government shutdown occurs, or if global health concerns continue to prevent the FDA or other regulatory authorities from conducting their regular inspections, reviews, or other regulatory activities, it could significantly impact the ability of the FDA or other regulatory authorities to timely review and process our regulatory submissions, which could have a material adverse effect on our business.

Insiders have substantial control over us and will be able to influence corporate matters.

As of March 31, 2021, our current directors and executive officers, together with their affiliates, beneficially own, in the aggregate, a majority of our outstanding common stock. As a result, these stockholders, if they act, will be able to exercise significant influence over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. They may have interests that differ from yours and may vote in a way with which you disagree and that may be adverse to your interests. This concentration of ownership could limit stockholders' ability to influence corporate matters and may have the effect of delaying, deterring or preventing a third party from acquiring control over us, depriving our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company, and could negatively impact the value and market price of our common stock.

Item 6. Exhibits.

EXHIBIT NO.	DESCRIPTION
4.1	Form of Warrant (filed with the SEC as Exhibit 4.1 to registrant's Form 8-K filed on February 25, 2021).
10.1	Securities Purchase Agreement, dated February 22, 2021, by and between the Company and the Purchasers signatory therein (filed with the SEC as Exhibit 10.1 to the registrant's Form 8-K filed on February 25, 2021).
31.1	Certification of principal executive officer pursuant to Rule 13a-14(A) promulgated under the Securities Exchange Act of 1934
31.2	Certification of principal financial officer pursuant to Rule 13a-14(A) promulgated under the Securities Exchange Act of 1934
32.1	Certification of principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 and Rule 13a-14(B) promulgated under the Securities Exchange Act of 1934
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

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.

Date:May 13, 2021

PROGENITY, INC.

By: /s/ Harry Stylli, Ph.D.
Harry Stylli, Ph.D.
Chairman and Chief Executive Officer
(principal executive officer)

By: /s/ Eric d'Esparbes
Eric d'Esparbes
Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)

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, Harry Stylli, Ph.D., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Progenity, Inc.;

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

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

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

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

   (b) 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 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: May 13, 2021

By: /s/ Harry Stylli

Harry Stylli, Ph.D., Chairman and 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, Eric d'Esparbes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Progenity, Inc.;

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

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

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

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

   (b) 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 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: May 13, 2021

By: /s/ Eric d'Esparbes

Eric d'Esparbes, Executive Vice President and 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 of Progenity, Inc. (the "Company") for the period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(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 results of operations of the Company.

Date: May 13, 2021

By: /s/ Harry Stylli

Harry Stylli, Ph.D., Chairman and Chief Executive Officer
(principal executive officer)

By: /s/ Eric d'Esparbes

Eric d'Esparbes, Executive Vice President and Chief Financial Officer
(principal financial and accounting officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Note: A signed original of this written statement required by §906 has been provided to Progenity, Inc. and will be retained by Progenity, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.