GenMark Diagnostics, Inc.
Form 10-Q
May 01, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
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: 001-34753

GenMark Diagnostics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	27-2053069
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5964 La Place Court Carlsbad, California	92008-8829
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: 760-448-4300

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 x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 (Check one):

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

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

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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. ¨

The number of outstanding shares of the registrant's common stock on April 27, 2018, was 55,412,410.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GENMARK DIAGNOSTICS, INC.
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	March 31, 2018	December 31, 2017
ASSETS:		
Current Assets:		
Cash and cash equivalents	$30,278	$ 26,754
Short-term marketable securities	35,185	45,236
Accounts receivable, net of allowances of $52 and $2,754, respectively	8,081	10,676
Inventories	10,452	10,949
Prepaid expenses and other current assets	1,490	2,216
Total current assets	85,486	95,831
Property and equipment, net	21,881	22,581
Intangible assets, net	2,475	2,624
Restricted cash	758	758
Other long-term assets	507	505
Total assets	$111,107	$ 122,299
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$9,688	$ 11,171
Accrued compensation	4,577	5,419
Current portion of long-term debt	13,428	7,927
Other current liabilities	2,912	3,226
Total current liabilities	30,605	27,743
Deferred rent	2,893	3,059
Long-term debt	14,868	20,099
Other noncurrent liabilities	187	241
Total liabilities	48,553	51,142
Stockholders' equity:		
Preferred stock, $0.0001 par value; 5,000 authorized, none issued	—	—
Common stock, $0.0001 par value; 100,000 authorized; 55,412 and 55,066 shares issued and outstanding, respectively	6	6
Additional paid-in capital	490,306	487,525
Accumulated deficit	(427,808)	(416,383)
Accumulated other comprehensive income	50	9
Total stockholders’ equity	62,554	71,157
Total liabilities and stockholders’ equity	$111,107	$ 122,299

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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GENMARK DIAGNOSTICS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands, except per share data)

	Three Months Ended March 31, 2018	March 31, 2017
Revenue		
Product revenue	$20,576	$12,470
License and other revenue	69	65
Total revenue	20,645	12,535
Cost of revenue	16,480	6,352
Gross profit	4,165	6,183
Operating expenses:		
Sales and marketing	5,402	4,693
General and administrative	4,133	4,011
Research and development	5,420	11,035
Total operating expenses	14,955	19,739
Loss from operations	(10,790)	(13,556)
Other income (expense):		
Interest income	187	52
Interest expense	(788)	(507)
Other income (expense)	(12)	95
Total other income (expense)	(613)	(360)
Loss before provision for income taxes	(11,403)	(13,916)
Income tax expense	20	1
Net loss	$(11,423)	$(13,917)
Net loss per share, basic and diluted	$(0.21)	$(0.30)
Weighted average number of shares outstanding basic and diluted	55,205	46,846
Other comprehensive loss:		
Net loss	$(11,423)	$(13,917)
Other comprehensive income/(loss):		
Foreign currency translation adjustments, net of tax	(34)	91
Net unrealized losses on marketable securities, net of tax	8	(16)
Total other comprehensive income/(loss)	(26)	75
Total comprehensive loss	$(11,449)	$(13,842)

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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GENMARK DIAGNOSTICS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net loss	$(11,423)	$(13,917)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,740	1,217
Net amortization/(accretion) of premiums/discounts on investments	(42)	19
Amortization of deferred debt issuance costs	290	151
Stock-based compensation	2,724	2,808
Provision for bad debt	—	9
Non-cash inventory adjustments	449	317
Other non-cash adjustments	84	(85)
Changes in operating assets and liabilities:		
Accounts receivable	2,566	1,558
Inventories	(526)	(3,118)
Prepaid expenses and other assets	760	(216)
Accounts payable	(1,361)	(2,821)
Accrued compensation	(992)	(1,144)
Other current and non-current liabilities	(321)	(343)
Net cash used in operating activities	(6,052)	(15,565)
Investing activities:		
Purchases of property and equipment	(465)	(1,888)
Purchases of marketable securities	(7,900)	—
Proceeds from sales of marketable securities	—	13,896
Maturities of marketable securities	18,000	700
Net cash provided by investing activities	9,635	12,708
Financing activities:		
Principal repayment of borrowings	(22)	(6)
Payments associated with debt issuance	(20)	(20)
Proceeds from stock option exercises	17	88
Net cash provided by (used in) financing activities	(25)	62
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(34)	14
Net increase (decrease) in cash, cash equivalents, and restricted cash	3,524	(2,781)
Cash, cash equivalents, and restricted cash at beginning of year	27,512	16,717
Cash, cash equivalents, and restricted cash at end of period	$31,036	$13,936
Non-cash investing and financing activities:		
Transfer of systems to property and equipment from inventory	$569	$415
Property and equipment included in accounts payable	$147	$183
Supplemental cash flow information:		
Cash paid for income taxes, net	$33	$5
Cash paid for interest	$508	$347

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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GENMARK DIAGNOSTICS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

GenMark Diagnostics, Inc., the Company or GenMark, was formed by Osmetech plc as a Delaware corporation in February 2010, and had no operations prior to its initial public offering, which was completed in June 2010. The Company is a provider of automated, multiplex molecular diagnostic testing systems that detect and measure DNA and RNA targets to diagnose disease and optimize patient treatment.

Basis of Presentation and Principles of Consolidation
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or U.S. GAAP, and applicable regulations of the U.S. Securities and Exchange Commission, or the SEC, and should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 27, 2018. These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal, recurring nature. Interim period operating results may not be indicative of the operating results for the full year or any future period.

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

The Company has experienced net losses and negative cash flows from operating activities since its inception and had an accumulated deficit of $427,808,000 as of March 31, 2018. The Company's ability to transition to profitable operations is dependent upon achieving a level of revenues adequate to support its cost structure through expanding its product offerings and consequently increasing its product revenues. As of March 31, 2018, the Company had available cash, cash equivalents, and marketable securities of $65,463,000 and working capital of $54,881,000 available to fund future operations. The Company has prepared cash flow forecasts which indicate, based on the Company's current cash resources available and working capital, that the Company will have sufficient resources to fund its operations for at least one year after the date the financial statements are issued.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes thereto. The Company’s significant estimates included in the preparation of the financial statements are related to accounts receivable, inventories, property and equipment, intangible assets, employee-related compensation accruals, warranty liabilities, tax valuation accounts and stock-based compensation. Actual results could differ from those estimates.

Segment Information
The Company currently operates in one reportable business segment, which encompasses the development, manufacturing, sales and support of instruments and molecular tests based on its proprietary eSensor® detection technology. Substantially all of the Company’s operations and assets are in the United States of America.

Recent Accounting Pronouncements
From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board, or the FASB, or other standard setting bodies that the Company adopts as of the specified effective date.

In November 2016, the FASB issued Accounting Standards Update, or ASU, 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires amounts generally described as restricted cash and restricted cash equivalents to be included in the cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 (including interim periods within those periods) using a retrospective transition method for each period presented, with early adoption permitted. The Company adopted the new standard in the first quarter of 2018 using the retrospective transition method resulting in an increase in the beginning and ending cash balance of $758,000 for each period presented.

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In February 2016, the FASB issued ASU 2016-02, Leases which outlines a comprehensive lease accounting model and supersedes the current lease guidance. The new guidance requires lessees to recognize lease liabilities and corresponding right-of-use assets for all leases with lease terms of greater than 12 months. It also changes the definition of a lease and expands the disclosure requirements of lease arrangements. The new guidance must be adopted using the modified retrospective approach and will be effective for the Company starting in the first quarter of 2019, with early adoption permitted. The Company believes that adoption of this guidance will modify its analysis and disclosures of lease agreements because operating agreements are a significant portion of the Company's total lease commitments. The Company is in the process of determining the effects adoption of this guidance will have on its consolidated financial statements and intends to adopt this guidance in the first quarter of 2019.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), an updated standard on revenue recognition. The new standard provides enhancements to the quality and consistency of how revenue is reported under the principle that revenue should be recognized in an amount that reflects the consideration to which the Company expects to be entitled in exchange for the transfer of promised goods or services. The Company adopted the new standard using the modified retrospective transition method. The cumulative effect of applying the new standard as of January 1, 2018 resulted in a net increase in opening retained earnings of $736,000. The impact to retained earnings was driven by the capitalization of certain costs, primarily sales-type commissions. During the three months ended March 31, 2018, the Company recognized $127,000 in expense related to the amortization of the capitalized contract costs which would not have been recorded under the prior revenue standard. Aside from this adjustment to beginning retained earnings and the related amortization of expense during the quarter, the application of this standard did not have a material impact on the Company's condensed consolidated financial statements as of and for the three months ended March 31, 2018. We expect the impact of the application of this standard to be immaterial to our consolidated financial statements going forward.

Revenue
The Company recognizes revenue from operations through the sale of products and other services. Product revenue is comprised of the sale of diagnostic tests and instruments.

Revenue is recognized when control of products and services is transferred to the customer in an amount that reflects the consideration that the Company expects to receive from the customer in exchange for those products and services. This process involves identifying the contract with the customer, determining the performance obligations in the contract, determining the contract price, allocating the contract price to the distinct performance obligations in the contract, and recognizing revenue when the performance obligations have been satisfied. A performance obligation is considered distinct from other obligations in a contract when it provides a benefit to the customer either on its own or together with other resources that are readily available to the customer and is separately identified in the contract. The Company considers a performance obligation satisfied once it has transferred control of a good or service to the customer, meaning the customer has the ability to use and obtain the benefit of the good or service. The Company recognizes revenue for satisfied performance obligations only when it determines there are no uncertainties regarding payment terms or transfer of control.

Revenue from product sales is recognized generally upon shipment to the end customer, which is when control of the product is deemed to be transferred. Invoicing typically occurs upon shipment and the term between invoicing and when payment is due is not significant. Revenue from instrument services is recognized as the services are rendered, typically evenly over the contract term.

Revenue is recorded net of discounts and sales taxes collected on behalf of governmental authorities. Employee sales commissions are recorded as selling, general and administrative expenses when incurred or amortized over the estimated contract term when resulting from new contract acquisition efforts.

The Company allocates contract price to each performance obligation in proportion to its stand-alone selling price. The stand-alone selling price is determined by the Company's best estimate of stand-alone selling price using average selling prices over a rolling 12-month period along with a specific assessment of any unique circumstances of the contract. For those products for which there is limited sales history, the Company makes price determination based on similar product sales data.

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The following table represents disaggregated revenue by source (in thousands):

	Three Months Ended March 31,	
	2018	2017
Revenue Source:		
ePlex	$11,922	$907
XT-8	8,654	11,563
Total product revenue	20,576	12,470
License and other revenue	69	65
Total revenue	$20,645	$12,535

Cash, Cash Equivalents and Marketable Securities

Cash and cash equivalents consist of cash on deposit with banks, money market instruments and certificates of deposit with original maturities of three months or less at the date of purchase. Marketable securities consist of certificates of deposits that mature in greater than three months. Marketable securities are accounted for as "available-for-sale" with the carrying amounts reported in the balance sheets stated at cost, which approximates their fair market value, with unrealized gains and losses, if any, reported as a separate component of stockholders' equity and included in comprehensive loss.

Restricted Cash

Restricted cash represents amounts designated for uses other than current operations and included $758,000 as of March 31, 2018, held as security for the Company’s letter of credit with Banc of California.

Receivables

Accounts receivable consist of amounts due to the Company for sales to customers and are recorded net of an allowance for doubtful accounts. The allowance for doubtful accounts is determined based on an assessment of the collectability of specific customer accounts, the aging of accounts receivable, and a reserve for unknown items based upon the Company’s historical experience.

Product Warranties

The Company generally offers a one-year warranty for its instruments sold to customers and typically up to a 60 day warranty for consumables. Factors that affect the Company’s warranty reserves include the number of units sold, historical and anticipated rates of warranty repairs, and the cost per repair. The Company periodically assesses the adequacy of its warranty reserve and adjusts the amount as appropriate.

Intangible Assets

Intangible assets comprise licenses or sublicenses to technology covered by patents owned by third parties, and are amortized on a straight-line basis over the expected useful lives of these assets, which is generally 10 years. Amortization of licenses typically begins upon the Company obtaining access to the licensed technology and is recorded in cost of revenues for licenses supporting commercialized products. The amortization of licenses to technology supporting products in development is recorded in research and development expenses.

Impairment of Long-Lived Assets

The Company assesses the recoverability of long-lived assets, including intangible assets, by periodically evaluating the carrying value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If impairment is indicated, the Company writes down the carrying value of the asset to its estimated fair value. This fair value is primarily determined based on estimated discounted cash flows.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value and include direct labor, materials, and manufacturing overhead. The Company periodically reviews inventory for evidence of slow-moving or obsolete parts, and writes inventory down to net realizable value, as needed. This write down is based on management's review of inventories on hand, compared to estimated future usage and sales, shelf-life assumptions, and assumptions about the likelihood of obsolescence. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required. Inventory impairment charges establish a new cost basis for inventory and charges are not reversed subsequently to income, even if circumstances later suggest that increased carrying amounts are recoverable.

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Property and Equipment, net

Property, equipment and leasehold improvements are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which are identified below. Repair and maintenance costs are expensed as incurred.

Machinery and laboratory equipment	3 - 5 years
Instruments	4 - 5 years
Office equipment	3 - 7 years
Leasehold improvements	over the shorter of the remaining life of the lease or the useful economic life of the asset

Income Taxes

Current income tax expense is the amount of income taxes expected to be payable for the current year. A deferred income tax liability or asset is established for the expected future tax consequences resulting from the differences in financial reporting and tax bases of assets and liabilities. A valuation allowance is provided if it is more likely than not that some or all of the deferred tax assets will not be realized. A full valuation allowance has been recorded against the Company's net deferred tax assets due to the uncertainty surrounding the Company's ability to utilize these assets in the future. The Company provides for uncertain tax positions when such tax positions do not meet the recognition thresholds or measurement standards prescribed by the authoritative guidance on income taxes. Amounts for uncertain tax positions are adjusted in periods when new information becomes available or when positions are effectively settled. The Company recognizes accrued interest related to uncertain tax positions as a component of income tax expense.

A tax position that is more likely than not to be realized is measured at the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with the taxing authority that has full knowledge of all relevant information. Measurement of a tax position that meets the more likely than not threshold considers the amounts and probabilities of the outcomes that could be realized upon settlement using the facts, circumstances and information available at the reporting date.

2. Net Loss per Common Share

Basic net loss per share is calculated by dividing loss available to stockholders of the Company's common stock (the numerator) by the weighted average number of shares of the Company's common stock outstanding during the period (the denominator). Shares issued during the period and shares reacquired during the period are weighted for the portion of the period that they were outstanding. Diluted loss per share is calculated in a similar way to basic loss per share except that the denominator is increased to include the number of additional shares that would have been outstanding if the dilutive potential shares had been issued, unless the effect would be anti-dilutive.

The computations of diluted net loss per share for the three month periods ended March 31, 2018 and 2017 did not include the effects of the following stock options and other equity awards which were outstanding as of the end of each period because the inclusion of these securities would have been anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2018	2017
Options outstanding to purchase common stock	2,454	2,550
Other unvested equity awards	3,759	2,931

Total	6,213	5,481

3. Stock-Based Compensation

The Company recognizes stock-based compensation expense related to stock options, restricted stock awards, restricted stock units, and market-based stock units granted to employees and directors in exchange for services under the Company's 2010 Equity Incentive Plan, or the 2010 Plan, and employee stock purchases under the Company's 2013 Employee Stock Purchase Plan, or the ESPP. Employee participation in the 2010 Plan is at the discretion of the Compensation Committee of the Board of Directors of the Company. Each equity award grant reduces the number of shares available for grant under the 2010 Plan. Stock-based compensation expense is recorded in cost of sales, sales and marketing, research and development, and/or general and administrative expenses based on the employee's respective function. During the three months ended March 31, 2018 and 2017, aggregate stock-based compensation expense was $2,724,000 and $2,808,000, respectively.

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Stock Options

The fair value of stock options granted is derived from the Black-Scholes Option Pricing Model, which uses several judgment-based variables to calculate the expense. The inputs include the expected term of the stock option, the expected volatility and other factors.

• Expected Term. Expected term represents the period that the stock-based awards are expected to be outstanding and is determined by using the simplified method.
• Expected Volatility. Expected volatility represents the estimated volatility in the Company’s stock price over the expected term of the stock option and is determined by review of the Company’s and similar companies’ historical experience.
• Expected Dividend. The Black-Scholes Option Pricing Model calls for a single expected dividend yield as an input. The Company has assumed no dividends as it has never paid dividends and has no current plans to do so.
• Risk-Free Interest Rate. The risk-free interest rate used in the Black-Scholes Option Pricing Model is based on published U.S. Treasury rates in effect at the time of grant for periods corresponding with the expected term of the option.

All stock options granted under the 2010 Plan are exercisable at a per share price equal to the closing quoted market price of a share of the Company’s common stock on the NASDAQ Global Market on the grant date and generally vest over a period of four years. Stock options are generally exercisable for a period of up to 10 years after grant and are typically forfeited if employment is terminated before the options vest.

The following table summarizes stock option activity during the three months ended March 31, 2018:

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2017	2,490,465	$ 9.59
Exercised	(4,000)	$ 4.24
Cancelled	(32,728)	$ 11.48
Outstanding at March 31, 2018	2,453,737	$ 9.58
Vested and expected to vest at March 31, 2018	2,444,714	$ 9.57
Exercisable at March 31, 2018	2,314,735	$ 9.38

Stock options that were exercisable as of March 31, 2018 had a remaining weighted average contractual term of 4.83 years, and an aggregate intrinsic value of $507,000. As of March 31, 2018, there were 2,453,737 stock options outstanding, which had a remaining weighted average contractual term of 4.94 years and an aggregate intrinsic value of $509,000. No stock options were granted during the three months ended March 31, 2018.

Restricted Stock Awards and Units

Restricted stock awards or units may be granted at the discretion of the compensation committee of the board of directors under the 2010 Plan in connection with the hiring or retention of personnel and are subject to certain conditions. In March 2013, the Company transitioned to granting restricted stock units under the 2010 Plan in lieu of granting restricted stock awards. Restrictions expire after the grant date in accordance with specific provisions in the applicable award agreement.

Restricted stock units granted under the 2010 Plan generally vest over a period of between one and four years and are typically forfeited if employment is terminated before the restricted stock units vest. The compensation expense related to the restricted stock awards or units is calculated as the fair market value of the stock on the grant date and is adjusted for estimated forfeitures.

The Company has not granted any restricted stock awards since 2013. As of March 31, 2018, all compensation expense related to restricted stock awards has been recognized and all awards have been fully vested. The total fair value of restricted stock awards that vested during the three months ended March 31, 2017 was $2,000.

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The Company’s restricted stock unit activity for the three months ended March 31, 2018 was as follows:

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2017	2,073,440	$ 9.14
Granted	1,548,350	$ 4.27
Vested	(342,381)	$ 9.77
Cancelled	(74,617)	$ 9.86
Unvested at March 31, 2018	3,204,792	$ 6.70

As of March 31, 2018, there was $15,120,000 of unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted average period of 2.94 years. The total fair value of restricted stock units that vested during the three months ended March 31, 2018 and 2017 was $1,523,000 and $1,920,000, respectively.

Market-Based Stock Units

The Company issued market-based stock units in February 2018, 2017, and 2016, which may result in the recipient receiving shares of stock equal to 200% of the target number of units granted. The vesting and issuance of Company stock depends on the Company's stock performance as compared to the NASDAQ Composite Index over the three-year period following the grant, subject to the recipient's continued service with the Company. As of March 31, 2018, there was $2,310,000 of unrecognized stock-based compensation expense related to market-based stock unit awards, which is expected to be recognized over a weighted average period of 2.03 years.

The Company’s market-based stock unit activity for the three months ended March 31, 2018 was as follows:

	Market-Based Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2017	233,743	$ 10.88
Target units granted	320,000	$ 7.19
Unvested at March 31, 2018	553,743	$ 8.75

The fair value of these market-based stock units was estimated on the grant date using the Monte Carlo Simulation Valuation Model, which estimates the potential outcome of achieving the market condition based on simulated future stock prices, with the following assumptions for the three months ended March 31, 2018:

	Three Months Ended March 31,	
	2018	2017
Expected volatility	65 %	54 %
Risk-free interest rate	2.40 %	1.50 %
Expected dividend	— %	— %
Weighted average fair value	$7.19	$13.82

Employee Stock Purchase Plan

The Company's stockholders approved the ESPP in May 2013. A total of 650,000 shares of the Company’s common stock were originally reserved for issuance under the ESPP, which permits eligible employees to purchase common stock at a discount through payroll deductions.

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The price at which stock is purchased under the ESPP is equal to 85% of the fair market value of the Company's common stock on the first or the last day of the offering period, whichever is lower. Generally, each offering under the ESPP will be for a period of six months as determined by the Company's Board of Directors; provided that no offering period may exceed 27 months. Employees may invest up to 10% of their qualifying gross compensation through payroll deductions. In no event may an employee purchase more than 1,500 shares of common stock during any six-month offering period. As of March 31, 2018, there were 93,116 shares of common stock available for issuance under the ESPP. In March 2018, the Company's Board of Directors approved the amendment and restatement of the ESPP to increase the total number of shares authorized for issuance under the ESPP from 650,000 shares to 1,750,000 shares, subject to approval by the Company's stockholders at the Company's 2018 Annual Stockholder Meeting to be held on May 24, 2018. The ESPP is a compensatory plan as defined by the authoritative guidance for stock compensation; therefore, stock-based compensation expense related to the ESPP has been recorded during the three months ended March 31, 2018.

Stock-Based Compensation Expense Recognition

Stock-based compensation was recognized in the unaudited condensed consolidated statements of comprehensive loss as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Cost of revenue	$187	$143
Sales and marketing	645	674
Research and development	627	674
General and administrative	1,265	1,317
Total stock-based compensation expense	$2,724	$2,808

Stock-based compensation capitalized during the periods presented was not material and there was no unrecognized tax benefit related to stock-based compensation for the three months ended March 31, 2018 and 2017.

4. Condensed Consolidated Financial Statement Details

The following tables show the Company's unaudited condensed consolidated financial statement details as of March 31, 2018 and December 31, 2017 (in thousands):

Inventory

	March 31, 2018	December 31, 2017
Raw materials	$ 3,225	$ 4,534
Work-in-process	3,012	3,638
Finished goods	4,215	2,777
Total inventories	$ 10,452	$ 10,949

Property, Plant and Equipment, Net

	March 31, 2018	December 31, 2017
Property and equipment–at cost:		
Plant and machinery	$14,061	$ 13,762
Instruments	13,676	13,347

Office equipment	2,005	1,948
Leasehold improvements	10,480	10,480
Total property and equipment–at cost	40,222	39,537
Accumulated depreciation and amortization	(18,341)	(16,956)
Total property and equipment, net	$ 21,881	$ 22,581

Accrued Warranty

Product warranty reserve activity for the three months ended March 31, 2018 and 2017 is as follows (in thousands):

	Three Months Ended March 31,	
	2018	2017
Beginning accrued warranty balance	$470	$219
Warranty expenses incurred	(516)	(312)
Provisions	464	397
Ending accrued warranty balance	$418	$304

5. Intangible Assets, net

Intangible assets as of March 31, 2018 and December 31, 2017 comprised the following (in thousands):

	March 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Licensed intellectual property	$4,750	$ (2,275)	$ 2,475	$4,750	$ (2,126)	$ 2,624

Intellectual property licenses have a weighted average remaining amortization period of 4.18 years as of March 31, 2018. Amortization expense for these licenses was $149,000 and $124,000 for the three months ended March 31, 2018 and 2017, respectively. Estimated future amortization expense for these licenses is as follows (in thousands):

Fiscal Years Ending	Future Amortization Expense
Remaining in 2018	$ 445
2019	593
2020	593
2021	593
2022	251
Total	$ 2,475

6. Marketable Securities

The following table summarizes the Company’s marketable securities as of March 31, 2018 and December 31, 2017 (in thousands):

March 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate notes and bonds	$ 18,358	$ —	$ (19)	$ 18,339
U.S. government and agency securities	7,994	—	(5)	7,989
Commercial paper	8,857	—	—	8,857
Total	$ 35,209	$ —	$ (24)	$ 35,185

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate notes and bonds	$ 26,303	$ —	$ (25)	$ 26,278
U.S. government and agency securities	11,981	—	(5)	11,976
Commercial paper	6,982	—	—	6,982
Total	$ 45,266	$ —	$ (30)	$ 45,236

The following table summarizes the maturities of the Company’s marketable securities as of March 31, 2018 (in thousands):

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 35,209	$ 35,185
Total	$ 35,209	$ 35,185

7. Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash equivalents, restricted cash, accounts receivable, and accounts payable approximate the related fair values due to the short-term maturities of these instruments.

The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

• Level 1 — Quoted prices in active markets for identical assets or liabilities.
• Level 2 — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
• Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the financial instruments measured at fair value on a recurring basis and the valuation approach applied to each class of financial instruments as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents				
Money market funds	$10,054	$ —	$ —	$10,054
Marketable securities				
Corporate notes and bonds	—	18,339	—	18,339
U.S. government and agency securities	—	7,989	—	7,989
Commercial paper	—	8,857	—	8,857
Total	$10,054	$ 35,185	$ —	$45,239

	December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents				
Money market funds	$6,362	$ —	$ —	$6,362
Corporate notes and bonds	—	1,498	—	1,498
Marketable securities				
Corporate notes and bonds	—	26,278	—	26,278
U.S. government and agency securities	—	11,976	—	11,976
Commercial paper	—	6,982	—	6,982
Total	$6,362	$ 46,734	$ —	$53,096

Level 2 marketable securities are priced using quoted market prices for similar instruments or nonbinding market prices that are corroborated by observable market data. The Company uses inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from quoted market prices, independent pricing vendors, or other sources, to determine the ultimate fair value of these assets and liabilities. The Company uses such pricing data as the primary input to make its assessments and determinations as to the ultimate valuation of its investment portfolio and has not made, during the periods presented, any material adjustments to such inputs.

8. Loan Payable

As of March 31, 2018 and December 31, 2017, long-term debt consisted of the following (in thousands):

	March 31, 2018	December 31, 2017

Term Loans		
Term Loan A - $10.0 million at 6.9% interest	$ 7,619	$ 7,619
Term Loan B - $10.0 million at 6.9% interest	7,619	7,619
Term Loan C - $15.0 million at 7.4% interest	12,000	12,000
Final fee obligation	2,429	2,429
Unamortized issuance costs	(1,371)	(1,641)
Total debt, net	28,296	28,026
Current portion of long-term debt	(13,428)	(7,927)
Long-term debt	$ 14,868	$ 20,099

Term Loans
In January 2015, the Company entered into a Loan and Security Agreement, or the LSA, with Solar Capital Partners (as successor-in-interest to General Electric Capital Corporation), and certain other financial institutions party thereto, as lenders, pursuant to which the Company obtained (a) up to $35,000,000 in a series of term loans and (b) a revolving loan in the maximum amount of $5,000,000. As of March 31, 2018, the Company had borrowed all $35,000,000 under the term loans as provided in the LSA. As of March 31, 2018, the Company had not borrowed any of the $5,000,000 available under the revolving loan.

The term loans will accrue interest at a rate equal to (a) the greater of 1.00% or the 3-year treasury rate in effect at the time of funding, plus (b) an applicable margin between 4.95% and 5.90% per annum. The Company is only required to make interest payments on amounts borrowed pursuant to the term loans from the applicable funding date until August 1, 2018, or the Interest Only Period. Following the Interest Only Period, monthly installments of principal and interest under the Term Loans will be due until the original principal amount and applicable interest is fully repaid by October 12, 2019, or the Maturity Date. The Company may extend the Interest-Only Period until January 1, 2019 and the Final Maturity Date until March 12, 2020, subject in each case to the satisfaction of certain financial conditions.

Under the LSA, the Company is required to comply with certain affirmative and negative covenants, including, without limitation, delivering reports and notices relating to the Company’s financial condition and certain regulatory events and intellectual property matters, as well as limiting the creation of liens, the incurrence of indebtedness, and the making of certain investments, dividends, payments and acquisitions, other than as specifically permitted by the LSA. As of March 31, 2018, the Company was in compliance with all covenants under the LSA.

Revolving Loan
Pursuant to the LSA, the Company may borrow up to $5,000,000 under a revolving loan facility. Borrowings under the revolving loan will accrue interest at a rate equal to (a) the greater of 1.25% per annum or a base rate as determined by a three-month LIBOR-based formula, plus (b) an applicable margin between 2.95% and 3.95% based on certain criteria as set forth in the LSA. All principal and interest outstanding under the revolving loan is due and payable on the Maturity Date. Following the funding of Term Loan A, the Company is required to pay a commitment fee equal to 0.75% per annum of the amounts made available but unborrowed under the revolving loan. As of March 31, 2018, the Company had not borrowed any amounts pursuant the revolving loan facility.

Debt Issuance Costs
As of March 31, 2018 and December 31, 2017, the Company had $1,371,000 and $1,641,000, respectively, of unamortized debt issuance discount, which is offset against borrowings in long-term and short-term debt.

For the three months ended March 31, 2018 and 2017, amortization of debt issuance costs was $290,000 and $151,000, respectively. Amortization of debt issuance costs is included in interest expense in the Company's unaudited condensed consolidated statements of comprehensive loss for the periods presented.

Letter of Credit
In September 2012, the Company provided a $758,000 letter of credit issued by Banc of California to the landlord of its executive office facility in Carlsbad, California. This letter of credit was secured with $758,000 of restricted cash as of March 31, 2018.

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9. Leases

The Company has operating and capital lease agreements for its office, manufacturing, warehousing and laboratory space and for office equipment. Rent and operating expenses charged under these arrangements was $427,000 and $409,000 for the three months ended March 31, 2018 and 2017, respectively. Pursuant to the Company's lease agreements, a portion of the monthly rent has been deferred. The balance of deferred rent as of March 31, 2018 and December 31, 2017 was $3,524,000 and $3,652,000, respectively.

As of March 31, 2018, the future minimum lease payments required over the next five years under the Company's lease arrangements are as follows (in thousands):

Fiscal Years Ending	Future Minimum Lease Payments
Remaining in 2018	$ 1,421
2019	1,989
2020	1,997
2021	1,372
2022	771
Thereafter	595
Total	$ 8,145

10. Income Taxes

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter.

As of March 31, 2018, the Company recorded a full valuation allowance against all of its net deferred tax assets due to the uncertainty surrounding the Company’s ability to utilize these assets in the future. Due to the Company's losses, it only records a tax provision or benefit related to uncertain tax positions and related interest and minimum tax payments or refunds. The Company recorded income tax expense of $20,000 for the three months ended March 31, 2018.

The Company continues to monitor guidance issued by the U.S. Treasury Department, the Internal Revenue Service, and other standard-setting bodies related to the Tax Cuts and Jobs Act, or the Jobs Act, enacted in 2017. Due to the timing of the enactment and the complexity involved in applying the provisions of the Jobs Act, the Company made reasonable estimates of the effects and recorded provisional amounts in the consolidated financial statements as of December 31, 2017. No adjustments were made to the provisional amounts recorded related to the Jobs Act during the three months ended March 31, 2018. The Company expects to complete the accounting for tax effects of the Jobs Act in 2018.

The Company is subject to taxation in the United States and in various state and foreign jurisdictions. The Company's federal and state returns since inception are subject to examination due to the carryover of net operating losses. As of March 31, 2018, the Company’s tax years from 2011 through 2012 are subject to examination by the United Kingdom tax authorities related to legacy operations. The statute of limitations for the assessment and collection of income taxes related to other foreign tax returns varies by country. In the foreign countries where we have operations, these time periods generally range from three to five years after the year for which the tax return is due or the tax is assessed.

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

Forward Looking Statements

The following discussion of our financial condition and results of operations should be read together with our unaudited condensed consolidated financial statements for the three months ended March 31, 2018 and the notes thereto included in Part I, Item 1 of this Quarterly Report, as well as the audited financial statements and notes thereto and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2017.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts, and projections and the beliefs and assumptions of our management, including, without limitation, our expectations regarding our results of operations, sales and marketing expenses, general and administrative expenses, research and development expenses, and the sufficiency of our cash for future operations. Words such as “expect,” “anticipate,” “target,” “project,” “believe,” “goals,” “estimate,” “potential,” “pre “may,” “will,” “might,” “could,” “intend,” variations of these terms or the negative of those terms and similar expressions are intended to identify these forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in or implied by any forward-looking statements.

Among the important factors that could cause actual results to differ materially from those indicated by our forward-looking statements are those discussed under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on February 27, 2018. We assume no obligation to update these forward looking statements to reflect future events or circumstances.

Trademarks and Trade Names

GenMark®, eSensor®, XT-8® and ePlex® and our other logos and trademarks are the property of GenMark Diagnostics, Inc. or its subsidiaries. All other brand names or trademarks appearing in this Quarterly Report are the property of their respective holders. Our use or display of other parties’ trademarks, trade dress or products in this Quarterly Report does not imply that we have a relationship with, or the endorsement or sponsorship of, the trademark or trade dress owners.

Overview

GenMark was formed by Osmetech plc, or Osmetech, as a Delaware corporation in February 2010, and had no operations prior to its initial public offering, which was completed in June 2010. Immediately prior to the closing of the initial public offering, GenMark acquired all of the outstanding ordinary shares of Osmetech in a reorganization under the applicable laws of the United Kingdom. Following the reorganization, Osmetech became a wholly-owned subsidiary controlled by GenMark, and the former shareholders of Osmetech received shares of GenMark. Any historical discussion of GenMark relates to Osmetech and its consolidated subsidiaries prior to the reorganization. In September 2012, GenMark placed Osmetech into liquidation to simplify its corporate structure. The liquidation of Osmetech was competed in the fourth quarter of 2013.

We are a molecular diagnostics company focused on developing and commercializing multiplex molecular tests that aid in the diagnosis of complex medical conditions and help guide therapy decisions. We currently develop and commercialize high-value, simple to perform, clinically relevant multiplex molecular tests based on our proprietary eSensor electrochemical detection technology.

Since inception, we have incurred net losses from operations each year, and we expect to continue to incur losses for the foreseeable future. Our net losses for the three months ended March 31, 2018 and 2017 were approximately $11,423,000 and $13,917,000, respectively. As of March 31, 2018, we had an accumulated deficit of $427,808,000. Our operations to date have been funded principally through sales of capital stock, borrowings and cash from operations. We expect to incur increasing expenses over the next several years, principally to further expand our diagnostic test menu for our ePlex system, as well as to further increase our manufacturing capabilities and domestic and international commercial organization.

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Our Products and Technology

We offer our sample-to-answer ePlex instrument and Respiratory Pathogen (RP) Panel for sale in the United States and Europe. We have also obtained CE Mark for our ePlex BCID-GP Panel, ePlex BCID-GN Panel, and ePlex BCID-FP Panel. We intend to submit 510(k) applications to the FDA for all three of our ePlex BCID panels in 2018 and we continue to actively evaluate the development of additional assay panels that we believe will meet important, unmet clinical needs, which our ePlex system is uniquely positioned to address.

We offer four FDA-cleared diagnostic tests which run on our XT-8 instrument: our Respiratory Viral Panel; our Cystic Fibrosis Genotyping Test; our Warfarin Sensitivity Test; and our Thrombophilia Risk Test. We have also developed a number of hepatitis C virus, or HCV, genotyping tests and custom manufactured reagents, as well as other research-based and pharmacogenomics products, versions of which are available for use with our XT-8 instrument for research use only (RUO).

Revenue

We recognize revenue from operations through the sale of our products and other services. Product revenue is comprised of the sale of diagnostic tests and instruments. Revenue is recognized when control of products and services is transferred to the customer in an amount that reflects the consideration that we expect to receive from the customer in exchange for those products and services.

Cost of Revenues

Cost of revenues includes the cost of materials, direct labor and manufacturing overhead costs used in the manufacture of our consumable tests, including royalties on product sales. Cost of revenues also includes depreciation on revenue generating instruments that have been placed with our customers under a reagent rental agreement, cost of instruments sold to customers, amortization of licenses related to our products and other costs such as warranty, royalty and customer and product technical support. We manufacture our test cartridges in our facilities and have recently invested in significant capacity for expansion. Any potential underutilized capacity may result in a high cost of revenues relative to revenue, if manufacturing volumes are not able to fully absorb operating costs. Our instruments are procured from contract manufacturers. We expect our cost of revenues to increase as we place additional instruments and manufacture and sell additional diagnostic tests; however, over time, we expect our cost per unit to decrease as production volume increases, manufacturing efficiencies are realized, improvements to procurement practices are made, instrument reliability increases and other improvements decrease costs.

Sales and Marketing Expenses

Sales and marketing expenses include costs associated with our direct sales force, sales management, marketing, technical support and business development activities. These expenses primarily consist of salaries, commissions, benefits, stock-based compensation, travel, advertising, promotions, product samples and trade show expenses. We expect sales and marketing expenses to continue to increase as we scale-up our domestic and international commercial efforts and expand our customer base.

Research and Development Expenses

Research and development expenses primarily include costs associated with the development of our ePlex instrument and its expanding test menu. These expenses also include certain clinical study expenses incurred in preparation for FDA clearance for these products, intellectual property prosecution and maintenance costs, and quality assurance expenses. The expenses primarily consist of salaries, benefits, stock-based compensation, outside design and consulting services, laboratory supplies, costs of consumables and materials used in product development, contract research organization costs, clinical studies and facility costs. We expense all research and development expenses in the periods in which they are incurred.

General and Administrative Expenses

Our general and administrative expenses include costs associated with our executive, accounting and finance, compliance, information technology, legal, facilities, human resource, administrative and investor relations activities. These expenses consist primarily of salaries, benefits, stock-based compensation costs, independent auditor costs, legal fees, consultants, insurance, and public company expenses, such as stock transfer agent fees and listing fees for NASDAQ.

Foreign Exchange Gains and Losses

Transactions in currencies other than our functional currency are translated at the prevailing rates on the dates of the applicable transaction. Foreign exchange gains and losses arise from differences in exchange rates during the period between the date a transaction denominated in a foreign currency is consummated and the date on which it is settled or translated.

Interest Income and Interest Expense

Interest income includes interest earned on our cash and cash equivalents and investments. Interest expense represents interest incurred on our loan payable and on other liabilities.

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Provision for Income Taxes

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

We assess the likelihood that we will be able to recover our deferred tax assets. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income, and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If it is more likely than not that we will not recover our deferred tax assets, we will increase our provision for income taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable.

Our income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While we believe we have appropriate support for the positions taken on our tax returns, we regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, income taxes payable, and deferred taxes in the period in which the facts that give rise to a revision become known.

Results of Operations — Three months ended March 31, 2018 compared to the three months ended March 31, 2017:

	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Revenue	$20,645	$12,535	$ 8,110	65 %

Our revenue consists primarily of revenue from the sale of test cartridges (which we refer to as consumables), with the remaining portion resulting from the sale of instruments and other revenues.

The increase in revenue for the three months ended March 31, 2018 was primarily driven by the increase in ePlex sales to $11,922,000 compared to $907,000 for the same period of the prior year. This increase resulted from the commercial launch of ePlex in 2017 coupled with high respiratory testing volumes as result of a strong 2017-2018 flu season. This increase is partially offset by a decline in XT-8 revenues mainly due to customer conversions from XT-8 to ePlex. The year over year revenue growth is driven by an increased volume of infectious disease assay sales to an expanding customer base. Pricing changes did not have an impact on revenue during the current quarter.

	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Cost of Revenue	$16,480	$6,352	$10,128	159 %
Gross Profit	$4,165	$6,183	$(2,018)	(33)%

The increase in cost of revenue for the three months ended March 31, 2018, compared to the same period of the prior year, was due to increased production volume corresponding to sales, as well as production-related investments associated with manufacturing expansion for continued commercialization of the ePlex system. Increases in our cost of revenue were attributable to product costs of $7,677,000 corresponding to volume increases, especially of ePlex consumables, decreased production efficiencies of $1,539,000, increased product support expenses of $359,000, increased inventory reserve expense of $268,000, increased freight out expenses of $147,000, and increased instrument depreciation, warranty, and repair expense of $99,000. The decrease in gross profit was due primarily to the shift in revenue composition towards ePlex consumables which currently have a higher per unit cost to manufacture. These increased product costs and product support costs relate primarily to manufacturing yields and related efficiencies.

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	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Sales and Marketing	$5,402	$4,693	$ 709	15 %

The increase in sales and marketing expense for the three months ended March 31, 2018, when compared to the same period of the prior year, was primarily driven by an increase in employee-related expenses of $260,000, increased travel expense of $88,000, an increase in supplies and equipment of $179,000 associated with additional instrument placements, increased sample consumable expense of $110,000, increased outside services expense of $32,000, and increased marketing expense of $22,000.

	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
General and Administrative	$4,133	$4,011	$ 122	3 %

The increase in general and administrative expense for the three months ended March 31, 2018, compared to the same period of the prior year, was primarily driven by an increase in audit and tax expenses of $267,000 due to timing, partially offset by a decrease in employee-related expenses of $192,000.

	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Research and Development	$5,420	$11,035	$(5,615)	(51)%

The decrease in research and development expense for the three months ended March 31, 2018, compared to the same period of the prior year, was primarily driven by a decrease in supplies and prototype materials utilized by our assay development teams of $4,756,000 and a decrease in employee-related expenses of $963,000, partially offset by an increase in clinical study expense of $123,000.

	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Other Income (Expense)	$(613)	$(360)	$ 253	70 %

The change in other income (expense) for the three months ended March 31, 2018, compared to the same period of the prior year, was primarily due to an increase in interest expense of $281,000 on amounts due under our credit facility, partially offset by an increase in interest earned on marketable securities.

	Three Months Ended March 31,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Income tax expense (benefit)	$20	$ 1	$ 19	1,900 %

Due to net losses incurred, we have only recorded tax provisions related to minimum tax payments in the United States and tax liabilities generated by our foreign subsidiaries.

Liquidity and Capital Resources

To date, we have funded our operations primarily from the sale of our common stock, borrowings and cash from operations. We have incurred net losses from continuing operations each year and have not yet achieved profitability. As of March 31, 2018, we had $54,881,000 of working capital and $65,463,000 in cash, cash equivalents, and marketable securities. We believe our existing cash, cash equivalents and marketable securities as of March 31, 2018 will enable us to fund our operations for at least the next 12 months.

The following table summarizes, for the periods indicated, selected items in our unaudited condensed consolidated statements of cash flows:

	March 31,	
Three months ended (in thousands):	2018	2017
Net cash used in operating activities	$(6,052)	$(15,565)
Net cash provided by investing activities	9,635	12,708
Net cash provided by (used in) financing activities	(25)	62
Effect of exchange rate on cash	(34)	14
Net increase (decrease) in cash, cash equivalents, and restricted cash	$3,524	$(2,781)

Cash flows used in operating activities
Net cash used in operating activities decreased $9,513,000 for the three months ended March 31, 2018 compared to the same period of the prior year. The decrease in cash used in operating activities was primarily due to decrease of $6,210,000 from changes in operating assets and liabilities and a $2,494,000 decrease in net loss. The primary factors affecting the change in operating assets and liabilities included decreases in accounts receivable, inventory, prepaid expense, and other current assets, and an increases in accounts payable.

Cash flows provided by investing activities
Net cash provided by investing activities decreased by $3,073,000 for the three months ended March 31, 2018, compared to the same period of the prior year, primarily due to a net decrease in maturities of marketable securities of $4,496,000, partially offset by a decrease of $1,423,000 in purchases of property and equipment.

Cash flows provided by (used in) financing activities
Net cash provided by (used in) financing activities decreased by $87,000 for the three months ended March 31, 2018, compared to the same period of the prior year, primarily due to a decrease in proceeds from the exercise of employee stock options of $71,000 and an increase in the principal repayment of borrowings of $16,000.

We have prepared cash flow forecasts which indicate, based on our current cash resources available, that we will have sufficient resources to fund our business for at least the next 12 months. We expect capital outlays and operating expenditures to increase over the next several years as we grow our customer base and revenues, and expand our research and development, commercialization and manufacturing activities. Factors that could affect our capital requirements, in addition to those previously identified, include, but are not limited to:

• the level of revenues and the rate of our revenue growth;
• change in demand from our customers;
• the level of expenses required to expand our commercial (sales and marketing) activities;
• the level of research and development investment required to develop and commercialize our ePlex system and maintain our XT-8 system;
• our need to acquire or license complementary technologies;
• the costs of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
• competing technological and market developments; and

• changes in regulatory policies or laws that affect our operations.

Loan and Security Agreement

In January 2015, we entered into a Loan and Security Agreement, or the LSA, with Solar Capital Partners (as successor-in-interest to General Electric Capital Corporation), and certain other financial institutions party thereto, as lenders, pursuant to which we obtained up to $35,000,000 in a series of term loans and a revolving loan in the maximum amount of $5,000,000. As of March 31, 2018, we borrowed all $35,000,000 under the terms loans as provided in the LSA. As of March 31, 2018, we had not borrowed any of the $5,000,000 available under the revolving loan.

Pursuant to the terms of the LSA, the lenders are granted a security interest in (a) all of our personal property, other than intellectual property (which is subject to a negative pledge), but including our rights to payment in respect of intellectual property, (b) the stock of all of our domestic subsidiaries, and (c) 65% of the voting stock and 100% of the non-voting stock of each of our non-U.S. subsidiaries.

The LSA contains customary affirmative and negative covenants, including, without limitation, delivering reports and notices relating to our financial condition and certain regulatory events and intellectual property matters, as well as limiting the creation of liens, the incurrence of indebtedness, and the making of certain investments, payments and acquisitions, other than as specifically permitted by the LSA.

Letter of Credit

In September 2012, we provided a $758,000 letter of credit issued by Banc of California to the landlord of our executive office facility in Carlsbad, California. This letter of credit was secured with $758,000 of restricted cash at March 31, 2018.

If we require additional capital, we cannot be certain that it will be available when needed or that our actual cash requirements will not be greater than anticipated. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we raise additional funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to our technologies or products, or grant licenses on terms that are not favorable to us.

Contractual Obligations

As of March 31, 2018, there were no material changes to our contractual obligations from those disclosed within the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make certain estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We evaluate our estimates on an ongoing basis, including those related to doubtful accounts, inventories, valuation of intangible assets and other long-term assets, income taxes, and stock-based compensation. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies and estimates are discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Other than the adoption of ASU 2014-19, Revenue from Contracts with Customers (Topic 606) as described in note "1. Organization and Basis of Presentation" in Part I, Item 1, Notes to Condensed Consolidated Financial Statements provided in this report, there have been no material changes to our critical accounting policies and estimates during the three months ended March 31, 2018.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements. We have provided a $758,000 standby letter of credit to our landlord as security for future rent in connection the lease of our executive office facility in Carlsbad, California, which is recorded as restricted cash on our unaudited condensed consolidated balance sheets.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risks during the quarter ended March 31, 2018.

Our exposure to market risk is currently limited to our cash and cash equivalents, all of which have maturities of less than three months, and marketable securities, which have maturities of greater than three months. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs, and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. To achieve our goals, we may in the future maintain a portfolio of cash equivalents and investments in a variety of securities that management believes to be of high credit quality. We currently do not hedge interest rate exposure. Because of the short-term nature of our cash equivalents and investments, we do not believe that an increase in market rates would have a material negative impact on the value of our portfolio.

Interest Rate Risk

As of March 31, 2018, based on current interest rates and total borrowings outstanding, a hypothetical 100 basis point increase or decrease in interest rates would have an immaterial pre-tax impact on our results of operations.

Foreign Currency Exchange Risks

We are a U.S. entity and our functional currency is the U.S. dollar. Substantially all of our revenues were derived from sales in the United States. We have business transactions in foreign currencies, however, we believe we do not have significant exposure to risk from changes in foreign currency exchange rates at this time. We do not currently engage in hedging or similar transactions to reduce our foreign currency risks. We will continue to monitor and evaluate our internal processes relating to foreign currency exchange, including the potential use of hedging strategies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports we file under the Exchange Act is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, with the participation of management, concluded that, as of March 31, 2018, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There has been no change in our internal controls over financial reporting that occurred in the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are from time to time subject to various claims and legal actions in the ordinary course of our business. We believe that there are currently no legal actions that would reasonably be expected to have a material adverse effect on our results of operations or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors during the three months ended March 31, 2018. For additional information regarding risk factors, refer to Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit	Description
3.1	Certificate of Incorporation (incorporated by reference to our Registration Statement on Form S-1 (File No. 333-165562) filed with the Commission on March 19, 2010).
3.2	Amended and Restated Bylaws (incorporated by reference to our Current Report on Form 8-K filed with the SEC on October 31, 2014).
10.1	The GenMark Diagnostics Inc. 2018 Bonus Plan (incorporated by reference to our Current Report on Form 8-K filed with the SEC on March 1, 2018).†
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.
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.

† Management compensation plan.

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.

GENMARK DIAGNOSTICS, INC.

Date:	May 1, 2018	By:	/s/ HANY MASSARANY
			Hany Massarany
			President and Chief Executive Officer
			(Principal Executive Officer)
Date:	May 1, 2018	By:	/s/ SCOTT MENDEL
			Scott Mendel
			Chief Financial Officer
			(Principal Financial and Accounting Officer)