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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2022**

**or**

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

**For the transition period from to**

**Commission File Number: 001-37894**

**FULGENT GENETICS, INC.**

**(exact name of registrant as specified in its charter)**

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

**(626) 350-0537**

**(Registrant’s telephone number, including area code)**

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 $0.0001 per share |  | FLGT |  | The Nasdaq Stock Market  (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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| 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 November 1, 2022, there were 29,438,052 outstanding shares of the registrant’s common stock.

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i

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**FULGENT GENETICS, INC.**

**Condensed Consolidated Balance Sheets**

**(in thousands, except par value data)**

**(unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **September 30,** | |  |  | **December 31,** | |  |
|  | **2022** | |  |  | **2021** | |  |
| **Assets** |  | |  |  |  | |  |
| Current assets |  | |  |  |  | |  |
| Cash and cash equivalents | $ | 168,770 |  |  | $ | 164,894 |  |
| Marketable securities |  | 402,290 |  |  |  | 285,605 |  |
| Trade accounts receivable, net of allowance for credit losses of $35,410 and $11,217 |  | 104,159 |  |  |  | 138,912 |  |
| Other current assets |  | 21,395 |  |  |  | 22,549 |  |
| Total current assets |  | 696,614 |  |  |  | 611,960 |  |
| Marketable securities, long-term |  | 346,946 |  |  |  | 485,047 |  |
| Redeemable preferred stock investment |  | 11,233 |  |  |  | 21,965 |  |
| Fixed assets, net |  | 81,807 |  |  |  | 62,287 |  |
| Intangible assets, net |  | 87,853 |  |  |  | 35,914 |  |
| Goodwill |  | 120,313 |  |  |  | 50,897 |  |
| Other long-term assets |  | 61,016 |  |  |  | 10,650 |  |
| Total assets | $ | 1,405,782 |  |  | $ | 1,278,720 |  |
| **Liabilities and Stockholders’ Equity** |  | |  |  |  | |  |
| Current liabilities |  | |  |  |  | |  |
| Accounts payable | $ | 14,481 |  |  | $ | 20,494 |  |
| Accrued liabilities |  | 25,101 |  |  |  | 17,689 |  |
| Income tax payable |  | 426 |  |  |  | 787 |  |
| Contract liabilities |  | 2,603 |  |  |  | 14,570 |  |
| Customer deposit |  | 25,810 |  |  |  | 19,806 |  |
| Investment margin loan |  | 14,999 |  |  |  | 15,137 |  |
| Contingent consideration |  | — |  |  |  | 10,000 |  |
| Notes payable, current portion |  | 5,481 |  |  |  | 6,147 |  |
| Other current liabilities |  | 13,621 |  |  |  | 680 |  |
| Total current liabilities |  | 102,522 |  |  |  | 105,310 |  |
| Unrecognized tax benefits |  | 1,826 |  |  |  | 725 |  |
| Other long-term liabilities |  | 20,037 |  |  |  | 6,805 |  |
| Total liabilities |  | 124,385 |  |  |  | 112,840 |  |
| Commitments and contingencies (Note 8) |  | |  |  |  | |  |
| Stockholders’ equity |  | |  |  |  | |  |
| Common stock, $0.0001 par value per share, 50,000 shares authorized, 30,677 shares issued and 29,681 shares outstanding and 30,160 shares issued and outstanding |  | 3 |  |  |  | 3 |  |
| Preferred stock, $0.0001 par value per share, 1,000 shares authorized, no shares issued or outstanding |  | — |  |  |  | — |  |
| Additional paid-in capital |  | 477,814 |  |  |  | 501,908 |  |
| Accumulated other comprehensive loss |  | (25,602 | ) |  |  | (759 | ) |
| Retained earnings |  | 824,832 |  |  |  | 657,597 |  |
| Total Fulgent stockholders' equity |  | 1,277,047 |  |  |  | 1,158,749 |  |
| Noncontrolling interest |  | 4,350 |  |  |  | 7,131 |  |
| Total stockholders’ equity |  | 1,281,397 |  |  |  | 1,165,880 |  |
| Total liabilities and stockholders’ equity | $ | 1,405,782 |  |  | $ | 1,278,720 |  |

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

1

**FULGENT GENETICS, INC.**

**Condensed Consolidated Statements of Income**

**(in thousands, except per share data)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
| Revenue | $ | 105,655 |  |  | $ | 227,868 |  |  | $ | 551,264 |  |  | $ | 740,913 |  |
| Cost of revenue |  | 59,560 |  |  |  | 43,466 |  |  |  | 197,350 |  |  |  | 153,399 |  |
| Gross profit |  | 46,095 |  |  |  | 184,402 |  |  |  | 353,914 |  |  |  | 587,514 |  |
| Operating expenses: |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Research and development |  | 7,507 |  |  |  | 6,021 |  |  |  | 20,401 |  |  |  | 16,755 |  |
| Selling and marketing |  | 9,859 |  |  |  | 6,012 |  |  |  | 28,665 |  |  |  | 16,239 |  |
| General and administrative |  | 26,266 |  |  |  | 12,299 |  |  |  | 82,281 |  |  |  | 28,630 |  |
| Amortization of intangible assets |  | 2,006 |  |  |  | 797 |  |  |  | 4,487 |  |  |  | 797 |  |
| Restructuring costs |  | 105 |  |  |  | — |  |  |  | 3,001 |  |  |  | — |  |
| Total operating expenses |  | 45,743 |  |  |  | 25,129 |  |  |  | 138,835 |  |  |  | 62,421 |  |
| Operating income |  | 352 |  |  |  | 159,273 |  |  |  | 215,079 |  |  |  | 525,093 |  |
| Interest and other income, net |  | 1,405 |  |  |  | 496 |  |  |  | 2,408 |  |  |  | 1,382 |  |
| Income before income taxes and gain on equity method investment |  | 1,757 |  |  |  | 159,769 |  |  |  | 217,487 |  |  |  | 526,475 |  |
| Provision for income taxes |  | 414 |  |  |  | 37,545 |  |  |  | 51,488 |  |  |  | 127,647 |  |
| Income before gain on equity method investment |  | 1,343 |  |  |  | 122,224 |  |  |  | 165,999 |  |  |  | 398,828 |  |
| Gain on equity method investment |  | — |  |  |  | — |  |  |  | — |  |  |  | 3,734 |  |
| Net income from consolidated operations |  | 1,343 |  |  |  | 122,224 |  |  |  | 165,999 |  |  |  | 402,562 |  |
| Net loss attributable to noncontrolling interests |  | 376 |  |  |  | 298 |  |  |  | 1,236 |  |  |  | 463 |  |
| Net income attributable to Fulgent | $ | 1,719 |  |  | $ | 122,522 |  |  | $ | 167,235 |  |  | $ | 403,025 |  |
|  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Net income per common share attributable to Fulgent: |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Basic | $ | 0.06 |  |  | $ | 4.13 |  |  | $ | 5.53 |  |  | $ | 13.79 |  |
| Diluted | $ | 0.06 |  |  | $ | 3.93 |  |  | $ | 5.38 |  |  | $ | 13.04 |  |
|  |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Weighted-average common shares: |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Basic |  | 30,174 |  |  |  | 29,673 |  |  |  | 30,256 |  |  |  | 29,221 |  |
| Diluted |  | 30,867 |  |  |  | 31,170 |  |  |  | 31,107 |  |  |  | 30,906 |  |

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

2

**FULGENT GENETICS, INC.**

**Condensed Consolidated Statements of Comprehensive Income (Loss)**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
| **Net income from consolidated operations** | $ | 1,343 |  |  | $ | 122,224 |  |  | $ | 165,999 |  |  | $ | 402,562 |  |
| **Other comprehensive income (loss):** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Foreign currency translation loss |  | (1,925 | ) |  |  | (114 | ) |  |  | (3,680 | ) |  |  | (78 | ) |
| Net (loss) gain on available-for-sale debt securities, net of tax |  | (2,502 | ) |  |  | 142 |  |  |  | (22,708 | ) |  |  | (587 | ) |
| **Comprehensive (loss) income from consolidated operations** |  | (3,084 | ) |  |  | 122,252 |  |  |  | 139,611 |  |  |  | 401,897 |  |
| Net loss attributable to noncontrolling interest |  | 376 |  |  |  | 298 |  |  |  | 1,236 |  |  |  | 463 |  |
| Foreign currency translation loss attributable to noncontrolling interest |  | 1,242 |  |  |  | 25 |  |  |  | 1,545 |  |  |  | 15 |  |
| **Comprehensive loss attributable to noncontrolling interest** |  | 1,618 |  |  |  | 323 |  |  |  | 2,781 |  |  |  | 478 |  |
| **Comprehensive (loss) income attributable to Fulgent** | $ | (1,466 | ) |  | $ | 122,575 |  |  | $ | 142,392 |  |  | $ | 402,375 |  |

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

3

**FULGENT GENETICS, INC.**

**Condensed Consolidated Statements of Stockholders’ Equity**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Fulgent Stockholders' Equity** | | | | | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
|  |  | **Shares** | |  |  | **Amount** | |  |  | **Additional  Paid-In Capital** | |  |  | **Accumulated  Other Comprehensive Loss** | |  |  | **Retained Earnings** | |  |  | **Fulgent Stockholders' Equity** | |  |  | **Noncontrolling Interest** | |  |  | **Total  Equity** | |  |
| **Balance at December 31, 2021** |  |  | **30,160** |  |  | **$** | **3** |  |  | **$** | **501,908** |  |  | **$** | **(759** | **)** |  | **$** | **657,597** |  |  | **$** | **1,158,749** |  |  | **$** | **7,131** |  |  | **$** | **1,165,880** |  |
| Equity-based compensation |  |  | — |  |  |  | — |  |  |  | 5,616 |  |  |  | — |  |  |  | — |  |  |  | 5,616 |  |  |  | — |  |  |  | 5,616 |  |
| Exercise of common stock options |  |  | 3 |  |  |  | — |  |  |  | 16 |  |  |  | — |  |  |  | — |  |  |  | 16 |  |  |  | — |  |  |  | 16 |  |
| Restricted stock awards |  |  | 172 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Common stock withholding for employee tax obligations |  |  | (8 | ) |  |  | — |  |  |  | (494 | ) |  |  | — |  |  |  | — |  |  |  | (494 | ) |  |  | — |  |  |  | (494 | ) |
| Other comprehensive income (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (11,734 | ) |  |  | — |  |  |  | (11,734 | ) |  |  | 119 |  |  |  | (11,615 | ) |
| Net income (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 153,979 |  |  |  | 153,979 |  |  |  | (422 | ) |  |  | 153,557 |  |
| **Balance at March 31, 2022** |  |  | **30,327** |  |  |  | **3** |  |  |  | **507,046** |  |  |  | **(12,493** | **)** |  |  | **811,576** |  |  |  | **1,306,132** |  |  |  | **6,828** |  |  |  | **1,312,960** |  |
| Equity-based compensation |  |  | — |  |  |  | — |  |  |  | 8,030 |  |  |  | — |  |  |  | — |  |  |  | 8,030 |  |  |  | — |  |  |  | 8,030 |  |
| Exercise of common stock options |  |  | 1 |  |  |  | — |  |  |  | 3 |  |  |  | — |  |  |  | — |  |  |  | 3 |  |  |  | — |  |  |  | 3 |  |
| Restricted stock awards |  |  | 161 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Common stock withholding for employee tax obligations |  |  | (8 | ) |  |  | — |  |  |  | (436 | ) |  |  | — |  |  |  | — |  |  |  | (436 | ) |  |  | — |  |  |  | (436 | ) |
| Repurchase of common stock |  |  | (215 | ) |  |  | — |  |  |  | (10,577 | ) |  |  | — |  |  |  | — |  |  |  | (10,577 | ) |  |  | — |  |  |  | (10,577 | ) |
| Other comprehensive loss |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (9,924 | ) |  |  | — |  |  |  | (9,924 | ) |  |  | (422 | ) |  |  | (10,346 | ) |
| Net income (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 11,537 |  |  |  | 11,537 |  |  |  | (438 | ) |  |  | 11,099 |  |
| **Balance at June 30, 2022** |  |  | **30,266** |  |  | **$** | **3** |  |  | **$** | **504,066** |  |  | **$** | **(22,417** | **)** |  | **$** | **823,113** |  |  | **$** | **1,304,765** |  |  | **$** | **5,968** |  |  | **$** | **1,310,733** |  |
| Equity-based compensation |  |  | — |  |  |  | — |  |  |  | 8,972 |  |  |  | — |  |  |  | — |  |  |  | 8,972 |  |  |  | — |  |  |  | 8,972 |  |
| Restricted stock awards |  |  | 203 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Common stock withholding for employee tax obligations |  |  | (8 | ) |  |  | — |  |  |  | (522 | ) |  |  | — |  |  |  | — |  |  |  | (522 | ) |  |  | — |  |  |  | (522 | ) |
| Repurchase of common stock |  |  | (780 | ) |  |  | — |  |  |  | (34,702 | ) |  |  | — |  |  |  | — |  |  |  | (34,702 | ) |  |  | — |  |  |  | (34,702 | ) |
| Other comprehensive loss |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (3,185 | ) |  |  | — |  |  |  | (3,185 | ) |  |  | (1,242 | ) |  |  | (4,427 | ) |
| Net income (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 1,719 |  |  |  | 1,719 |  |  |  | (376 | ) |  |  | 1,343 |  |
| **Balance at September 30, 2022** |  |  | **29,681** |  |  | **$** | **3** |  |  | **$** | **477,814** |  |  | **$** | **(25,602** | **)** |  | **$** | **824,832** |  |  | **$** | **1,277,047** |  |  | **$** | **4,350** |  |  | **$** | **1,281,397** |  |

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

4

**FULGENT GENETICS, INC.**

**Condensed Consolidated Statements of Stockholders’ Equity**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **Fulgent Stockholders' Equity** | | | | | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |  |  | |  |
|  |  | **Shares** | |  |  | **Amount** | |  |  | **Additional  Paid-In Capital** | |  |  | **Accumulated  Other Comprehensive Income (Loss)** | |  |  | **Retained Earnings** | |  |  | **Fulgent Stockholders' Equity** | |  |  | **Noncontrolling Interest** | |  |  | **Total  Equity** | |  |
| **Balance at December 31, 2020** |  |  | **28,178** |  |  | **$** | **3** |  |  | **$** | **418,065** |  |  | **$** | **438** |  |  | **$** | **150,881** |  |  | **$** | **569,387** |  |  | $ | — |  |  | **$** | **569,387** |  |
| Equity-based compensation |  |  | — |  |  |  | — |  |  |  | 2,962 |  |  |  | — |  |  |  | — |  |  |  | 2,962 |  |  |  | — |  |  |  | 2,962 |  |
| Exercise of common stock options |  |  | 45 |  |  |  | — |  |  |  | 44 |  |  |  | — |  |  |  | — |  |  |  | 44 |  |  |  | — |  |  |  | 44 |  |
| Restricted stock awards |  |  | 187 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Common stock withholding for employee tax obligations |  |  | (4 | ) |  |  | — |  |  |  | (513 | ) |  |  | — |  |  |  | — |  |  |  | (513 | ) |  |  | — |  |  |  | (513 | ) |
| Issuance of common stock at an average of $52.00 per share, net |  |  | 583 |  |  |  | — |  |  |  | 30,297 |  |  |  | — |  |  |  | — |  |  |  | 30,297 |  |  |  | — |  |  |  | 30,297 |  |
| Other comprehensive loss |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (654 | ) |  |  | — |  |  |  | (654 | ) |  |  | — |  |  |  | (654 | ) |
| Cumulative effect of accounting change |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (887 | ) |  |  | (887 | ) |  |  | — |  |  |  | (887 | ) |
| Cumulative tax effect of accounting change |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 239 |  |  |  | 239 |  |  |  | — |  |  |  | 239 |  |
| Net income |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 200,691 |  |  |  | 200,691 |  |  |  | — |  |  |  | 200,691 |  |
| **Balance at March 31, 2021** |  |  | **28,989** |  |  |  | **3** |  |  |  | **450,855** |  |  |  | **(216** | **)** |  |  | **350,924** |  |  |  | **801,566** |  |  |  | — |  |  |  | **801,566** |  |
| Equity-based compensation |  |  | — |  |  |  | — |  |  |  | 3,526 |  |  |  | — |  |  |  | — |  |  |  | 3,526 |  |  |  | — |  |  |  | 3,526 |  |
| Exercise of common stock options |  |  | 4 |  |  |  | — |  |  |  | 24 |  |  |  | — |  |  |  | — |  |  |  | 24 |  |  |  | — |  |  |  | 24 |  |
| Restricted stock awards |  |  | 143 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Common stock withholding for employee tax obligations |  |  | (1 | ) |  |  | — |  |  |  | (39 | ) |  |  | — |  |  |  | — |  |  |  | (39 | ) |  |  | — |  |  |  | (39 | ) |
| Issuance of common stock at an average of $73.75 per share, net |  |  | 378 |  |  |  | — |  |  |  | 27,889 |  |  |  | — |  |  |  | — |  |  |  | 27,889 |  |  |  | — |  |  |  | 27,889 |  |
| Noncontrolling interest assumed related to acquisitions |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 8,151 |  |  |  | 8,151 |  |
| Other comprehensive gain (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | (49 | ) |  |  | |  |  |  | (49 | ) |  |  | 10 |  |  |  | (39 | ) |
| Net income (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 79,812 |  |  |  | 79,812 |  |  |  | (165 | ) |  |  | 79,647 |  |
| **Balance at June 30, 2021** |  |  | **29,513** |  |  | **$** | **3** |  |  | **$** | **482,255** |  |  | **$** | **(265** | **)** |  | **$** | **430,736** |  |  | **$** | **912,729** |  |  | **$** | **7,996** |  |  | **$** | **920,725** |  |
| Equity-based compensation |  |  | — |  |  |  | — |  |  |  | 4,374 |  |  |  | — |  |  |  | — |  |  |  | 4,374 |  |  |  | — |  |  |  | 4,374 |  |
| Exercise of common stock options |  |  | 25 |  |  |  | — |  |  |  | 17 |  |  |  | — |  |  |  | — |  |  |  | 17 |  |  |  | — |  |  |  | 17 |  |
| Restricted stock awards |  |  | 320 |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |
| Common stock withholding for employee tax obligations |  |  | (29 | ) |  |  | — |  |  |  | (2,915 | ) |  |  | — |  |  |  | — |  |  |  | (2,915 | ) |  |  | — |  |  |  | (2,915 | ) |
| Other comprehensive gain (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 53 |  |  |  | — |  |  |  | 53 |  |  |  | (25 | ) |  |  | 28 |  |
| Net income (loss) |  |  | — |  |  |  | — |  |  |  | — |  |  |  | — |  |  |  | 122,522 |  |  |  | 122,522 |  |  |  | (298 | ) |  |  | 122,224 |  |
| **Balance at September 30, 2021** |  |  | **29,829** |  |  | **$** | **3** |  |  | **$** | **483,731** |  |  | **$** | **(212** | **)** |  | **$** | **553,258** |  |  | **$** | **1,036,780** |  |  | **$** | **7,673** |  |  | **$** | **1,044,453** |  |

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

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**FULGENT GENETICS, INC.**

**Condensed Consolidated Statements of Cash Flows**

**(in thousands)**

**(unaudited)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **Nine Months Ended September 30,** | | | | | |  |
|  |  | **2022** | |  |  | **2021** | |  |
| **Cash flow from operating activities:** |  |  | |  |  |  | |  |
| Net income from consolidated operations |  | $ | 165,999 |  |  | $ | 402,562 |  |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  | |  |  |  | |  |
| Equity-based compensation |  |  | 22,618 |  |  |  | 10,862 |  |
| Depreciation and amortization |  |  | 22,860 |  |  |  | 7,513 |  |
| Provision for credit losses |  |  | 25,256 |  |  |  | 4,107 |  |
| Noncash lease expense |  |  | 3,311 |  |  |  | 682 |  |
| Loss on disposal of fixed asset |  |  | 300 |  |  |  | 779 |  |
| Amortization of premium of marketable securities |  |  | 4,230 |  |  |  | 5,490 |  |
| Deferred taxes |  |  | (4,934 | ) |  |  | (6,574 | ) |
| Unrecognized tax benefits |  |  | 1,101 |  |  |  | 157 |  |
| Net loss on marketable securities |  |  | 626 |  |  |  | 595 |  |
| Gain on equity method investment |  |  | — |  |  |  | (3,734 | ) |
| Other |  |  | (23 | ) |  |  | (22 | ) |
| Changes in operating assets and liabilities: |  |  | |  |  |  | |  |
| Trade accounts receivable |  |  | 24,214 |  |  |  | 65,003 |  |
| Other current and long-term assets |  |  | 3,722 |  |  |  | (2,086 | ) |
| Accounts payable |  |  | (32,331 | ) |  |  | (9,002 | ) |
| Income tax payable |  |  | (400 | ) |  |  | (35,444 | ) |
| Accrued liabilities and other liabilities |  |  | (12,905 | ) |  |  | 21,252 |  |
| Operating and finance lease liabilities |  |  | (3,331 | ) |  |  | (649 | ) |
| Net cash provided by operating activities |  |  | 220,313 |  |  |  | 461,491 |  |
| **Cash flow from investing activities:** |  |  | |  |  |  | |  |
| Purchase of marketable securities |  |  | (257,267 | ) |  |  | (523,939 | ) |
| Acquisition of businesses, net of cash acquired |  |  | (137,755 | ) |  |  | (61,868 | ) |
| Purchase of preferred stock of privately held company |  |  | (15,000 | ) |  |  | — |  |
| Purchases of fixed assets |  |  | (14,053 | ) |  |  | (17,829 | ) |
| Contingent consideration payout related to a business acquisition |  |  | (10,000 | ) |  |  | — |  |
| Purchase of redeemable preferred stock |  |  | — |  |  |  | (20,000 | ) |
| Proceeds from sale of fixed assets |  |  | 240 |  |  |  | 22 |  |
| Maturities of marketable securities |  |  | 131,713 |  |  |  | 61,516 |  |
| Proceeds from sale of marketable securities |  |  | 133,407 |  |  |  | 155,809 |  |
| Net cash used in investing activities |  |  | (168,715 | ) |  |  | (406,289 | ) |
| **Cash flow from financing activities:** |  |  | |  |  |  | |  |
| Repurchase of common stock |  |  | (45,279 | ) |  |  | — |  |
| Common stock withholding for employee tax obligations |  |  | (1,452 | ) |  |  | (3,467 | ) |
| Repayment of notes payable |  |  | (367 | ) |  |  | — |  |
| Principal paid for finance lease |  |  | (469 | ) |  |  | (3 | ) |
| Proceeds from exercise of stock options |  |  | 19 |  |  |  | 85 |  |
| Proceeds from public offerings of common stock, net of issuance costs |  |  | — |  |  |  | 75,626 |  |
| Proceeds from noncontrolling interest |  |  | — |  |  |  | 10 |  |
| Net cash (used in) provided by financing activities |  |  | (47,548 | ) |  |  | 72,251 |  |
| Effect of exchange rate changes on cash and cash equivalents |  |  | (174 | ) |  |  | (2 | ) |
| **Net increase in cash and cash equivalents** |  |  | 3,876 |  |  |  | 127,451 |  |
| **Cash and cash equivalents at beginning of period** |  |  | 164,894 |  |  |  | 87,426 |  |
| **Cash and cash equivalents at end of period** |  | $ | 168,770 |  |  | $ | 214,877 |  |
| **Supplemental disclosures of cash flow information:** |  |  | |  |  |  | |  |
| Income taxes paid |  | $ | 56,181 |  |  | $ | 169,540 |  |
| **Supplemental disclosures of non-cash investing and financing activities:** |  |  | |  |  |  | |  |
| Purchases of marketable securities in other current liabilities |  | $ | 12,905 |  |  | $ | 20,092 |  |
| Contingent consideration for business acquisition included in other current liabilities |  | $ | — |  |  | $ | 8,500 |  |
| Purchases of fixed assets in accounts payable |  | $ | 1,690 |  |  | $ | 2,279 |  |
| Purchases of fixed assets in notes payable |  | $ | 3,833 |  |  | $ | — |  |
| Operating lease right-of-use assets obtained in exchange for lease liabilities |  | $ | 52 |  |  | $ | 1,706 |  |
| Finance lease right-of-use assets obtained in exchange for lease liabilities |  | $ | 573 |  |  | $ | — |  |
| Operating lease right-of-use assets reduced due to lease modification and termination |  | $ | 66 |  |  | $ | 399 |  |

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

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**FULGENT GENETICS, INC.**

**Notes to the Condensed Consolidated Financial Statements**

**(unaudited)**

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

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

***Nature of the Business***

Fulgent Genetics, Inc., together with its subsidiaries and affiliated professional corporations, or PCs, collectively referred to as the Company, unless otherwise noted or the context otherwise requires, is a technology company offering large-scale COVID-19 testing services, molecular diagnostic testing services and comprehensive genetic testing designed to provide physicians with clinically actionable diagnostic information to improve the quality of patient care. A cornerstone of the Company’s business is its ability to provide expansive options and flexibility for all clients’ unique testing needs. To this end, the Company has developed a proprietary technology platform allowing it to offer a broad and flexible test menu and to continually expand and improve its proprietary genetic reference library, while maintaining accessible pricing, high accuracy and competitive turnaround times. Combining next generation sequencing, or NGS, with its technology platform, the Company performs full-gene sequencing with deletion/duplication analysis in single-gene tests; pre-established, multi-gene, disease-specific panels; and customized panels that can be tailored to meet specific customer needs.

***Unaudited Interim Financial Information***

The accompanying unaudited interim condensed consolidated financial statements have been prepared on the same basis as the Company’s audited consolidated financial statements as of and for the fiscal year ended December 31, 2021, which are included in the Company’s annual report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on February 28, 2022, or the 2021 Annual Report, and, in the opinion of management, include all adjustments, which are normal and recurring in nature, necessary for a fair presentation of the Company’s financial position and results of operations. Operating results for interim periods are not necessarily indicative of the results that may be expected for a full fiscal year or any other period. The accompanying Condensed Consolidated Balance Sheet as of December 31, 2021 has been derived from the Company’s audited consolidated financial statements at that date but does not include all of the disclosures required by U.S. GAAP. As such, the information included in this quarterly report on Form 10-Q should be read in conjunction with the Company’s audited consolidated financial statements included in the 2021 Annual Report, including the notes thereto.

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

See the summary of the Company’s significant accounting policies set forth in the notes to its consolidated financial statements included in the 2021 Annual Report.

***Use of Estimates***

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting periods. These estimates, judgments and assumptions are based on historical data and experience available at the date of the accompanying condensed consolidated financial statements, as well as various other factors management believes to be reasonable under the circumstances, including but not limited to the potential impacts arising from the recent global pandemic related to COVID-19. As the extent and duration of the impacts from COVID-19 remain unclear, the Company’s estimates and assumptions may evolve as conditions change. Actual results could differ significantly from these estimates.

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

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***Marketable Securities***

All marketable debt securities, which consist of corporate debt securities, municipal bonds, U.S. government and agency debt securities, U.S. treasury bills, and Yankee debt securities issued by foreign governments or entities and denominated in U.S. dollars have been classified as “available-for-sale,” and are carried at fair value. Net unrealized gains and losses, net of any related tax effects, are excluded from earnings and are included in other comprehensive income (loss) and reported as a separate component of stockholders’ equity until realized. Realized gains and losses on marketable debt securities are included in interest and other income, net, in the accompanying Condensed Consolidated Statements of Income. The cost of any marketable debt securities sold is based on the specific-identification method. The amortized cost of marketable debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest on marketable debt securities is included in interest and other income, net. In accordance with the Company’s investment policy, management invests to diversify credit risk and only invests in securities with high credit quality, including U.S. government securities.

The Company’s investments in marketable equity securities are measured at fair value with the related gains and losses, realized and unrealized, recognized in interest and other income, net, in the accompanying Condensed Consolidated Statements of Income. The cost of any marketable equity securities sold is based on the specific-identification method.

For available-for-sale debt securities, in an unrealized loss, the Company determines whether a credit loss exists. The credit loss is estimated by considering available information relevant to the collectability of the security and information about past events, current conditions, and reasonable and supportable forecasts. The Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows to be collected is less than the amortized basis of the security, a credit loss exists, and any credit loss is recorded as a charge to interest and other income, net, not to exceed the amount of the unrealized loss. If the Company has an intent to sell, or if it is more likely than not that the Company will be required to sell a debt security in an unrealized loss position before recovery of its amortized cost basis, the Company will write down the security to its fair value and record the corresponding charge as a component of interest and other income, net.

***Trade Accounts Receivable and Allowance for Credit Losses***

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains an allowance for credit losses for expected uncollectible trade accounts receivable, which is recorded as an offset to trade accounts receivable, and changes in allowance for credit losses are classified as a general and administrative expense in the accompanying Condensed Consolidated Statements of Income. The Company assesses collectability by reviewing trade accounts receivable on a collective basis where similar risk characteristics exist and on an individual basis when it identifies specific customers that have deterioration in credit quality such that they may no longer share similar risk characteristics with the other receivables. In determining the amount of the allowance for credit losses, the Company uses a probability-of-default and loss given default model, which allows the ability to define a point of default and measure credit losses for receivables that have reached the point of default for purposes of calculating the allowance for credit losses. Loss given default represents the likelihood that a receivable that has reached the point of default will not be collected in full. The Company updates its probability-of-default and loss given default factors annually to incorporate the most recent historical data and adjusts the quantitative portion of the reserve through its qualitative reserve overlay. The Company looks at qualitative factors such as general economic conditions in determining expected credit losses. During the three and nine months ended September 30, 2022, the Company recorded $6.5 million and $25.3 million of provision for credit losses for trade accounts receivable, respectively. During the three and nine months ended September 30, 2021, the Company recorded $848,000 and $4.1 million of provision for credit losses for trade accounts receivable, respectively.

***Redeemable Preferred Stock Investment***

The redeemable preferred stock investment of $11.2 million as of September 30, 2022 represents the fair value of redeemable preferred stock of a private company that the Company purchased in July 2021. The investment is classified as available-for-sale debt securities. The fair value of available-for-sale debt security is included in the Consolidated Statement of Balance Sheets. Unrealized losses of $748,000 and $10.7 million were excluded from earnings and reported in other comprehensive loss for the three and nine months ended September 30, 2022. There was no unrealized gain or loss in the three and nine months ended September 30, 2021. Since the Company intends on holding the preferred stock, and the preferred stock is not redeemable until July 2027, the investment is recorded as a long-term investment.

***Foreign Currency Translation and Foreign Currency Transactions***

The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss) in the accompanying Condensed Consolidated Statements of Stockholders’ Equity.

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Loss from these translations were $1.9 million and $3.7 million in the three and nine months ended September 30, 2022, respectively. Loss from these translations were not significant in the three and nine months ended September 30, 2021. The Company and its subsidiaries that use the U.S. dollar as their functional currency remeasure monetary assets and liabilities at exchange rates in effect at the end of each period, whereas reagents and supplies, property and nonmonetary assets and liabilities are measured at historical rates. Losses from these remeasurements were not significant in the three and nine months ended September 30, 2022 and 2021.

***Comprehensive Income (Loss)***

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) consists of net unrealized gain or loss on available-for-sale debt securities, net of tax, and foreign currency translation adjustments from the Company's subsidiaries not using the U.S. dollar as their functional currency. Reclassifications from other comprehensive income (loss) to net earnings were not significant in the three and nine months ended September 30, 2022 and 2021. The tax effects related to net unrealized loss on available-for-sale debt securities were $3.6 million and $9.4 million in the three and nine months ended September 30, 2022, respectively. The tax effects were not significant in the three and nine months ended September 30, 2021.

***Leases***

The Company determines if an arrangement is a lease at inception by evaluating whether the arrangement conveys the right to use an identified asset and whether the Company obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Operating and finance lease right-of-use assets, or ROU assets, short-term lease liabilities, and long-term lease liabilities are included in other long-term assets, accrued liabilities, and other long-term liabilities, respectively, in the accompanying Condensed Consolidated Balance Sheets.

Lease ROU assets represent the Company’s right to use an underlying asset for the lease term. Lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term, including options to extend the lease when it is reasonably certain that the Company will exercise that option. The Company uses its incremental borrowing rate based on the information available at the commencement date, including inquiries with its bank, in determining the present value of lease payments since its leases do not provide an implicit rate. Lease ROU assets consist of initial measurement of lease liabilities, any lease payments made to lessor on or before the lease commencement date, minus any lease incentive received, and any initial direct costs incurred by the Company. Operating lease expense for lease payments is recognized on a straight-line basis over the lease term. For finance lease, ROU assets are amortized on a straight-line basis from the commencement date to the earlier of the end of useful life of the ROU assets or the end of the lease term. Amortization of ROU assets and interest on the lease liability for finance leases are included as charges to the accompanying Condensed Consolidated Statements of Income.

Lease ROU assets and liabilities arising from business combinations are recognized and measured at the acquisition dates as if an acquired lease were a new lease at the date of acquisition using the Company’s incremental borrowing rate unless the discount rate is implicit in the lease. The Company elects to not to recognize assets or liabilities as of the acquisition dates for leases that, on the acquisition dates, have a remaining lease term of 12 months or less. The Company also retains the acquirees’ classification of the leases if there are no modifications as part of the business combinations.

The Company leases and subleases out space in buildings it owns or leases to third-party tenants or subtenants under noncancelable operating leases. The Company recognizes lease payments as income over the lease terms on a straight-line basis and recognizes variable lease payments as income in the period in which the changes in facts and circumstances on which the variable lease payments are based occur. The net rental income is included in the interest and other income, net, in the accompanying Condensed Consolidated Statements of Income.

***Concentration of Customers***

In certain periods, a small number of customers have accounted for a significant portion of the Company’s revenue. After aggregating customers that are under common control or affiliation, one customer contributed 13% and 21% of the Company's revenue for the three and nine months ended September 30, 2022, respectively. Two customers contributed 31% and 11%, respectively, of the Company’s revenue for the three months ended September 30, 2021, and one customer contributed 26% of the Company’s revenue for the nine months ended September 30, 2021. No single customer comprised 10% or more of total accounts receivable as of September 30, 2022 and December 31, 2021.

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***Disaggregation of Revenue***

The Company classifies its customers into three payor types: (i) Insurance, including claim reimbursement from the U.S. Health Resources and Services Administration, or HRSA, for uninsured individuals, (ii) Institutional customers, including hospitals, medical institutions, other laboratories, governmental bodies, municipalities and large corporations, or (iii) Patients who pay directly, as the Company believes this best depicts how the nature, amount, timing, and uncertainty of its revenue and cash flows are affected by economic factors. The following table summarizes revenue from contracts with customers by payor type for the three and nine months ended September 30, 2022 and 2021.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| **Testing Services by payor** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Insurance | $ | 63,030 |  |  | $ | 143,276 |  |  | $ | 337,497 |  |  | $ | 400,354 |  |
| Institutional customers |  | 42,280 |  |  |  | 84,401 |  |  |  | 212,980 |  |  |  | 339,572 |  |
| Patients |  | 345 |  |  |  | 191 |  |  |  | 787 |  |  |  | 987 |  |
| **Total Revenue** | $ | 105,655 |  |  | $ | 227,868 |  |  | $ | 551,264 |  |  | $ | 740,913 |  |

The insurance revenue category above includes zero and $81.9 million for the three months ended September 30, 2022 and 2021, respectively, and $92.7 million and $231.5 million for the nine months ended September 30, 2022 and 2021, respectively, for services related to claims covered by the HRSA COVID-19 Uninsured Program. The HRSA program stopped accepting claims at 11:59 p.m. on March 22, 2022.

There was no material variable consideration recognized in the current period that relates to performance obligations that were completed in the prior period.

Collection of the Company’s net revenues from insurers is normally a function of providing complete and correct billing information within the various filing deadlines. Provided the Company has billed insurers accurately with complete information prior to the established filing deadline, there has historically been little to no credit risk. If there has been a delay in billing, the Company determines if the amounts in question will likely go past the filing deadline, and if so, the Company will reserve accordingly for the billing.

***Contract Balances***

*Receivables from contracts with customers -* Receivables from contracts with customers are included within trade accounts receivable on the Condensed Consolidated Balance Sheets. Net receivable from Insurance and Institutional customers represented 78% and 22%, respectively, as of September 30, 2022. Net receivable from Insurance and Institutional customers represented 47% and 53%, respectively, as of December 31, 2021.

*Contracts assets and liabilities* - Contract assets from contracts with customers associated with contract execution and certain costs to fulfill a contract are included in other current assets in the accompanying Condensed Consolidated Balance Sheets. Contract liabilities are recorded when the Company receives payment prior to completing its obligation to transfer goods or services to a customer. Contract liabilities are included in the Condensed Consolidated Balance Sheets. Revenues of $8.5 million and $5.7 million were recognized for the three months ended September 30, 2022 and 2021, respectively, and $14.4 million and $26.4 million were recognized for the nine months ended September 30, 2022 and 2021, respectively, related to contract liabilities at the beginning of the respective periods.

***Reagents and Supplies***

The Company maintains reagents and other consumables primarily used in sample collections and testing which are valued at the lower of cost or net realizable value. Cost is determined using actual costs on a first-in, first-out basis. The reagents and supplies were included in other current assets in the accompanying Condensed Consolidated Balance Sheets.

***Customer Deposit***

Customer deposit in the accompanying Condensed Consolidated Balance Sheets consists of payments received from customers in excess of their outstanding trade accounts receivable balances or amounts customers believe were potentially paid in error. These deposits will be offset against future testing receivables or refunded to the customers. The largest deposit as of September 30, 2022 was recorded in the amount of $16.0 million.

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***Business Combination***

The Company uses the acquisition method of accounting and allocates the fair value of purchase consideration to the assets acquired and liabilities assumed from an acquiree based on their respective fair values as of the acquisition date. The excess of the fair value of purchase consideration over the fair value of these assets acquired and liabilities assumed is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing intangible assets include, but are not limited to, expected future cash flows, which includes consideration of future growth and margins, future changes in technology, expected cost and time to develop in-process research and development, brand awareness and discount rates. Fair value estimates are based on the assumptions that management believes a market participant would use in pricing the asset or liability.

***Goodwill***

Goodwill is not amortized but is subject to impairment tests on an annual basis, or more frequently if indicators of potential impairment exist, and goodwill is written down when it is determined to be impaired. The Company typically performs an annual impairment review in the fourth quarter of each fiscal year unless one had been performed previously within the past 12 months and compares the fair value of the reporting unit in which the goodwill resides to its carrying value.

***Restructuring Costs***

Restructuring costs represent one-time employee termination benefits provided to employees associated with a newly acquired entity that were involuntarily terminated. A plan of termination was approved and authorized by management in the second quarter of 2022. The plan identified specific employees to be terminated and established terms of benefits those employees would receive upon termination. Total restructuring costs incurred in the three and nine months ended September 30, 2022 were $105,000 and $3.0 million, respectively, and payable balance as of September 30, 2022 was $2.0 million, which is included in accrued liabilities in the accompanying Condensed Consolidated Balance Sheets. No additional costs are expected to be incurred under the plan of termination, and the payable balance is expected to be paid off by August 2023. There were no such costs in the prior fiscal year.

***Recent Accounting Pronouncements***

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

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**Note 3. Equity and Debt Securities**

The Company’s equity and debt securities consisted of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **September 30, 2022** | | | | | | | | | | | | | |  |
|  | **Amortized Cost Basis** | |  |  | **Unrealized Gains** | |  |  | **Unrealized Losses** | |  |  | **Aggregate Fair Value** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| **Equity securities:** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Long-term |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Preferred stock of privately held company | $ | 15,000 |  |  | $ | — |  |  | $ | — |  |  |  | 15,000 |  |
| Total equity securities |  | 15,000 |  |  |  | — |  |  |  | — |  |  |  | 15,000 |  |
| **Available-for-sale debt securities** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Short-term |  | |  |  |  | |  |  |  | |  |  |  | |  |
| U.S. government debt securities |  | 181,333 |  |  |  | — |  |  |  | (2,824 | ) |  |  | 178,509 |  |
| Corporate debt securities |  | 124,181 |  |  |  | — |  |  |  | (2,120 | ) |  |  | 122,061 |  |
| Money market accounts |  | 87,382 |  |  |  | — |  |  |  | — |  |  |  | 87,382 |  |
| U.S. treasury bills |  | 72,522 |  |  |  | 6 |  |  |  | (285 | ) |  |  | 72,243 |  |
| U.S. agency debt securities |  | 32,505 |  |  |  | — |  |  |  | (483 | ) |  |  | 32,022 |  |
| Municipal bonds |  | 8,058 |  |  |  | — |  |  |  | (123 | ) |  |  | 7,935 |  |
| Yankee debt securities |  | 7,582 |  |  |  | — |  |  |  | (147 | ) |  |  | 7,435 |  |
| Less: Cash equivalents |  | (105,292 | ) |  |  | (5 | ) |  |  | — |  |  |  | (105,297 | ) |
| Total debt securities due within 1 year |  | 408,271 |  |  |  | 1 |  |  |  | (5,982 | ) |  |  | 402,290 |  |
| After 1 year through 5 years |  | |  |  |  | |  |  |  | |  |  |  | |  |
| U.S. government debt securities |  | 181,464 |  |  |  | — |  |  |  | (8,261 | ) |  |  | 173,203 |  |
| Corporate debt securities |  | 114,848 |  |  |  | — |  |  |  | (6,584 | ) |  |  | 108,264 |  |
| U.S. agency debt securities |  | 52,230 |  |  |  | — |  |  |  | (3,467 | ) |  |  | 48,763 |  |
| Municipal bonds |  | 12,929 |  |  |  | — |  |  |  | (382 | ) |  |  | 12,547 |  |
| Yankee debt securities |  | 753 |  |  |  | — |  |  |  | (100 | ) |  |  | 653 |  |
| Redeemable preferred stock investment |  | 20,000 |  |  |  | — |  |  |  | (8,767 | ) |  |  | 11,233 |  |
| Total debt securities due after 1 year through 5 years |  | 382,224 |  |  |  | — |  |  |  | (27,561 | ) |  |  | 354,663 |  |
| After 5 years through 10 years |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Municipal bonds |  | 3,654 |  |  |  | — |  |  |  | (138 | ) |  |  | 3,516 |  |
| Total debt securities due after 5 years through 10 years |  | 3,654 |  |  |  | — |  |  |  | (138 | ) |  |  | 3,516 |  |
| Total available-for-sale debt securities |  | 794,149 |  |  |  | 1 |  |  |  | (33,681 | ) |  |  | 760,469 |  |
| Total equity and debt securities | $ | 809,149 |  |  | $ | 1 |  |  | $ | (33,681 | ) |  | $ | 775,469 |  |

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **December 31, 2021** | | | | | | | | | | | | | |  |
|  | **Amortized Cost Basis** | |  |  | **Unrealized Gains** | |  |  | **Unrealized Losses** | |  |  | **Aggregate Fair Value** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| **Equity securities:** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Short-term |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Bond funds | $ | 99,314 |  |  | $ | — |  |  | $ | (515 | ) |  | $ | 98,799 |  |
| Exchange traded funds |  | 35,174 |  |  |  | — |  |  |  | (174 | ) |  |  | 35,000 |  |
| Total equity securities |  | 134,488 |  |  |  | — |  |  |  | (689 | ) |  |  | 133,799 |  |
| **Available-for-sale debt securities** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Short-term |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Corporate debt securities |  | 92,116 |  |  |  | 24 |  |  |  | (148 | ) |  |  | 91,992 |  |
| Money market accounts |  | 77,067 |  |  |  | — |  |  |  | — |  |  |  | 77,067 |  |
| U.S. government debt securities |  | 51,318 |  |  |  | — |  |  |  | (81 | ) |  |  | 51,237 |  |
| Municipal bonds |  | 4,980 |  |  |  | — |  |  |  | (12 | ) |  |  | 4,968 |  |
| Yankee debt securities |  | 3,615 |  |  |  | — |  |  |  | (6 | ) |  |  | 3,609 |  |
| Less: Cash equivalents |  | (77,067 | ) |  |  | — |  |  |  | — |  |  |  | (77,067 | ) |
| Total debt securities due within 1 year |  | 152,029 |  |  |  | 24 |  |  |  | (247 | ) |  |  | 151,806 |  |
| After 1 year through 5 years |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Corporate debt securities |  | 242,421 |  |  |  | 29 |  |  |  | (1,913 | ) |  |  | 240,537 |  |
| U.S. Government debt securities |  | 147,699 |  |  |  | 7 |  |  |  | (786 | ) |  |  | 146,920 |  |
| U.S. agency debt securities |  | 70,069 |  |  |  | — |  |  |  | (535 | ) |  |  | 69,534 |  |
| Municipal bonds |  | 11,920 |  |  |  | 13 |  |  |  | (11 | ) |  |  | 11,922 |  |
| Yankee debt securities |  | 8,633 |  |  |  | — |  |  |  | (89 | ) |  |  | 8,544 |  |
| Total debt securities due after 1 year through 5 years |  | 480,742 |  |  |  | 49 |  |  |  | (3,334 | ) |  |  | 477,457 |  |
| After 5 years through 10 years |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Municipal bonds |  | 7,633 |  |  |  | — |  |  |  | (43 | ) |  |  | 7,590 |  |
| Redeemable preferred stock investment |  | 20,000 |  |  |  | 1,965 |  |  |  | — |  |  |  | 21,965 |  |
| Total debt securities due after 5 years through 10 years |  | 27,633 |  |  |  | 1,965 |  |  |  | (43 | ) |  |  | 29,555 |  |
| Total available-for-sale debt securities |  | 660,404 |  |  |  | 2,038 |  |  |  | (3,624 | ) |  |  | 658,818 |  |
| Total equity and debt securities | $ | 794,892 |  |  | $ | 2,038 |  |  | $ | (4,313 | ) |  | $ | 792,617 |  |

Gross unrealized losses on the Company’s equity and debt securities were $33.7 million as of September 30, 2022. Gross unrealized losses on the Company’s equity and debt securities were $4.3 million as of December 31, 2021. The Company did not recognize any credit losses during the three and nine months ended September 30, 2022 and 2021.

The Company’s securities of $489.7 million are used as collateral for an outstanding margin account borrowing. As of September 30, 2022, the Company had an outstanding borrowing of $15.0 million under its margin account. Margin account borrowings were used for the purchase of real property located in El Monte, California in 2020.

**Note 4. Fair Value Measurements**

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

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|  |  |
| --- | --- |
|  |  |
| Level 1: | Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. |
| Level 2: | Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. |
| Level 3: | Inputs are unobservable for the asset or liability. |

The following tables present information about the Company’s financial assets measured at fair value on a recurring basis, based on the above three-tier fair value hierarchy:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **September 30, 2022** | | | | | | | | | | | | | |  |
|  | **Total** | |  |  | **Level 1** | |  |  | **Level 2** | |  |  | **Level 3** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| **Equity securities, debt securities and cash equivalents:** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| U.S. government debt securities | $ | 351,712 |  |  | $ | — |  |  | $ | 351,712 |  |  | $ | — |  |
| Corporate debt securities |  | 230,325 |  |  |  | — |  |  |  | 230,325 |  |  |  | — |  |
| Money market accounts |  | 87,382 |  |  |  | 87,382 |  |  |  | — |  |  |  | — |  |
| U.S. agency debt securities |  | 80,785 |  |  |  | — |  |  |  | 80,785 |  |  |  | — |  |
| U.S. treasury bills |  | 72,243 |  |  |  | 72,243 |  |  |  | — |  |  |  | — |  |
| Municipal bonds |  | 23,998 |  |  |  | — |  |  |  | 23,998 |  |  |  | — |  |
| Preferred stock of privately held company |  | 15,000 |  |  |  | — |  |  |  | — |  |  |  | 15,000 |  |
| Redeemable preferred stock investment |  | 11,233 |  |  |  | — |  |  |  | — |  |  |  | 11,233 |  |
| Yankee debt securities |  | 8,088 |  |  |  | — |  |  |  | 8,088 |  |  |  | — |  |
| Total equity securities, debt securities and cash equivalents | $ | 880,766 |  |  | $ | 159,625 |  |  | $ | 694,908 |  |  | $ | 26,233 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **December 31, 2021** | | | | | | | | | | | | | |  |
|  | **Total** | |  |  | **Level 1** | |  |  | **Level 2** | |  |  | **Level 3** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| **Equity securities, debt securities and cash equivalents:** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Corporate debt securities | $ | 332,529 |  |  | $ | — |  |  | $ | 332,529 |  |  | $ | — |  |
| U.S. government debt securities |  | 198,157 |  |  |  | — |  |  |  | 198,157 |  |  |  | — |  |
| Bond funds |  | 98,799 |  |  |  | 98,799 |  |  |  | — |  |  |  | — |  |
| U.S. agency debt securities |  | 69,534 |  |  |  | — |  |  |  | 69,534 |  |  |  | — |  |
| Exchange traded funds |  | 35,000 |  |  |  | 35,000 |  |  |  | — |  |  |  | — |  |
| Municipal bonds |  | 24,480 |  |  |  | — |  |  |  | 24,480 |  |  |  | — |  |
| Yankee debt securities |  | 12,153 |  |  |  | — |  |  |  | 12,153 |  |  |  | — |  |
| Redeemable preferred stock investment |  | 21,965 |  |  |  | — |  |  |  | — |  |  |  | 21,965 |  |
| Money market accounts |  | 77,067 |  |  |  | 77,067 |  |  |  | — |  |  |  | — |  |
| Total equity securities, debt securities and cash equivalents | $ | 869,684 |  |  | $ | 210,866 |  |  | $ | 636,853 |  |  | $ | 21,965 |  |

The Company’s Level 1 assets include bond funds, exchange traded funds, U.S. treasury bills, and money market instruments and are valued based upon observable market prices. Level 2 assets consist of U.S. government and U.S. agency debt securities, municipal bonds, corporate debt securities and Yankee debt securities. Level 2 securities are valued based upon observable inputs that include reported trades, broker/dealer quotes, bids and offers. As of September 30, 2022, the Company had $15.0 million of preferred stock of a privately held company, which was included in other long-term assets in the accompanying Condensed Consolidated Balance Sheets, and $11.2 million of redeemable preferred stock of a private company that were measured using unobservable (Level 3) inputs. The fair value of redeemable preferred stock as of September 30, 2022 and December 31, 2021 was based on valuation performed by a third-party valuation company utilizing the guideline public company method under market approach and the discounted cash flow method under income approach. For the value of the investment in private equity securities, the Company elected to measure it at cost minus impairment, as the preferred stock of the privately held company did not have a readily determinable fair value, and no impairment loss was recorded as of September 30, 2022.

There were no transfers between fair value measurement levels during the three and nine months ended September 30, 2022 and 2021.

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**Note 5. Fixed Assets**

Major classes of fixed assets consisted of the following:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  | **Useful Lives** | **2022** | |  |  | **2021** | |  |
|  |  | **(in thousands)** | | | | | |  |
| Medical lab equipment | 1 to 12 Years | $ | 48,570 |  |  | $ | 35,930 |  |
| Leasehold improvements | Shorter of lease term or estimated useful life |  | 11,175 |  |  |  | 4,003 |  |
| Computer hardware | 1 to 5 Years |  | 6,906 |  |  |  | 5,661 |  |
| Computer software | 1 to 5 Years |  | 6,793 |  |  |  | 1,408 |  |
| Building | 39 Years |  | 6,731 |  |  |  | 6,731 |  |
| Aircraft | 7 Years |  | 6,503 |  |  |  | 6,503 |  |
| Building improvements | 6 months to 39 Years |  | 5,749 |  |  |  | 3,936 |  |
| Furniture and fixtures | 1 to 5 Years |  | 4,160 |  |  |  | 2,255 |  |
| Automobile | 2 to 7 Years |  | 811 |  |  |  | 825 |  |
| Land improvements | 5 to 15 Years |  | 616 |  |  |  | 403 |  |
| General equipment | 3 to 5 Years |  | 44 |  |  |  | 44 |  |
| Land |  |  | 7,500 |  |  |  | 7,500 |  |
| Assets not yet placed in service |  |  | 12,215 |  |  |  | 6,718 |  |
| Total |  |  | 117,773 |  |  |  | 81,917 |  |
| Less: Accumulated depreciation |  |  | (35,966 | ) |  |  | (19,630 | ) |
| Fixed assets, net |  | $ | 81,807 |  |  | $ | 62,287 |  |

Depreciation expenses on fixed assets totaled $7.6 million and $2.5 million for the three months ended September 30, 2022 and 2021, respectively, and $17.9 million and $6.7 million for the nine months ended September 30, 2022 and 2021, respectively.

**Note 6. Other Balance Sheet Accounts**

Other current assets consisted of the following:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **September 30,** | |  |  | **December 31,** | |  |
|  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | |  |
| Prepaid expenses | $ | 8,399 |  |  | $ | 4,244 |  |
| Reagents and supplies |  | 7,509 |  |  |  | 12,206 |  |
| Marketable securities interest receivable |  | 2,733 |  |  |  | 2,743 |  |
| Prepaid income taxes |  | 2,055 |  |  |  | 1,716 |  |
| Other receivable |  | 699 |  |  |  | 1,403 |  |
| Contract assets |  | — |  |  |  | 237 |  |
| Total | $ | 21,395 |  |  | $ | 22,549 |  |

Reagents and supplies include reagents and consumables used for COVID-19 testing and genetics testing and collection kits for COVID-19 testing.

Other current liabilities consisted of the following:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **September 30,** | |  |  | **December 31,** | |  |
|  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | |  |
| Payable to a broker | $ | 12,905 |  |  | $ | — |  |
| Other |  | 716 |  |  |  | 680 |  |
| Total | $ | 13,621 |  |  | $ | 680 |  |

The payable to a broker was for marketable securities purchased before the period-end that did not settle until after period-end.

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

The Company views its operations and manages its business in one reporting segment. Long-lived assets were primarily located in the United States as of September 30, 2022 and December 31, 2021. Revenue by region during the three and nine months ended September 30, 2022 and 2021 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| **Revenue:** |  | |  |  |  | |  |  |  | |  |  |  | |  |
| United States | $ | 101,515 |  |  | $ | 223,685 |  |  | $ | 540,801 |  |  | $ | 731,084 |  |
| Foreign |  | 4,140 |  |  |  | 4,183 |  |  |  | 10,463 |  |  |  | 9,829 |  |
| Total | $ | 105,655 |  |  | $ | 227,868 |  |  | $ | 551,264 |  |  | $ | 740,913 |  |

**Note 8. Debt, Commitments and Contingencies**

***Debt***

As of September 30, 2022, the Company had an outstanding borrowing of $15.0 million under its margin account with the custodian of the Company’s marketable debt security investment account, Pershing Advisor Solutions, LLC, a BNY Mellon Company. Margin account borrowings were used for the purchase of real property located in El Monte, California in 2020. The securities in the brokerage account were used as collateral for the margin loan. The custodian can issue a margin call at any time. The interest rate on the margin loan was the effective federal funds rate, or EFFR, plus a spread. The EFFR and/or the spread can be changed by BNY Mellon at any time. The interest was 1% at the time of withdrawal of $15.0 million from the margin account, and the interest rate at September 30, 2022 was 3%. The Company did not make any other withdrawals from the margin account, and the outstanding balance is included in the accompanying Condensed Consolidated Balance Sheets. The related interest expenses for the three and nine months ended September 30, 2022 were $105,000 and $185,000, respectively. The related interest expenses for the three and nine months ended September 30, 2021 were $30,000 and $88,000, respectively.

Notes payable as of September 30, 2022 consisted of $3.8 million of notes payable related to an installment sale contract the Company entered in February 2022 for a building and $5.0 million of notes payable to Xilong Scientific Co., or Xilong Scientific, by Fujian Fujun Gene Biotech Co., Ltd., or FF Gene Biotech. The notes payable related to the installment sale are due in February 2030, and the interest rate is 1.08%. The current portion and noncurrent portion are $461,000 and $3.4 million, respectively, and the noncurrent portion is included in the other long-term liabilities in the accompanying Condensed Consolidated Balance Sheets. The notes payable to Xilong Scientific are due on December 31, 2022, and the interest rate on the loan is 4.97%. The related interest expenses for the three and nine months ended September 30, 2022 were $75,000 and $231,000, respectively. The related interest expenses for the three and nine months ended September 30, 2021 were $74,000. The Company did not have the installment sale contract in 2021.

***Operating Leases***

See Note 9, *Leases*, for further information.

***Purchase Obligations***

As of September 30, 2022, the Company had non-cancelable purchase obligations of $15.8 million, of which, $5.5 million for computer software and hardware, $5.2 million for reagents and other supplies, $3.2 million for services, and $1.4 million for medical lab equipment are payable within twelve months, and $485,000 for services is payable within the next twenty-four months.

***Contingencies***

From time to time, the Company may be subject to legal proceedings and claims arising in the ordinary course of business. In the opinion of management, the outcome of these matters would not have a material effect on the Company’s condensed consolidated financial position, results of operations or cash flows.

The Company has received a Civil Investigative Demand, or CID, issued by the U.S. Department of Justice pursuant to the False Claims Act related to its investigation of allegations of medically unnecessary laboratory testing, improper billing for laboratory testing, and remuneration received or provided in violation of the Anti-Kickback Statute and the Stark Law. This CID requests information and records relating to certain of the Company’s customers named in the CID, which represent a small portion of the Company’s revenues. The Company is fully cooperating with the U.S. Department of Justice to promptly respond to the requests for

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information in this CID, and does not presently expect this CID or resulting investigation to have a material adverse impact. However, the Company cannot predict when the investigation will be resolved, the outcome of the investigation or its potential impact, which may ultimately be greater than what the Company currently expects.

**Note 9. Leases**

***Lessee***

The Company is party as a lessee to various non-cancelable operating leases with varying terms through March 2028 primarily for laboratory and office space and equipment. The Company has options to renew some of these leases after their expirations. On a lease-by-lease basis, the Company considers such options, which may be elected at the Company’s sole discretion, in determining the lease term. The Company also has four finance leases for lab equipment through December 2026, one of which was acquired in a recent business combination. The Company retained acquirees’ classification of its leases. The Company does not have any leases with variable lease payments. The Company’s operating lease agreements do not contain any residual value guarantees, material restrictive covenants, bargain purchase options or asset retirement obligations.

The Company’s headquarters are located in Temple City, California, which is comprised of various corporate offices and a laboratory certified under the Clinical Laboratory Improvement Amendments of 1988, or CLIA, accredited by the College of American Pathologists, or CAP, and licensed by the State of California Department of Public Health. Other CLIA-certified laboratories are located in Houston, Texas; Alpharetta, Georgia; Phoenix, Arizona; New York, New York; Irving, Texas; and Needham, Massachusetts. Additional offices are located in Atlanta, Georgia and are used for certain report generation functions.

The operating and finance lease right-of-use asset, short-term lease liabilities, and long-term lease liabilities as of September 30, 2022 and December 31, 2021 were as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **September 30,** | |  |  | **December 31,** | |  |
|  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | |  |
| Operating lease ROU asset, net | $ | 16,363 |  |  | $ | 7,141 |  |
| Operating lease liabilities, short term | $ | 6,184 |  |  | $ | 1,842 |  |
| Operating lease liabilities, long term | $ | 10,282 |  |  | $ | 5,344 |  |
| Finance lease ROU asset, net | $ | 3,010 |  |  | $ | 1,735 |  |
| Finance lease liabilities, short term | $ | 927 |  |  | $ | 332 |  |
| Finance lease liabilities, long term | $ | 2,050 |  |  | $ | 1,398 |  |

The following was operating and finance lease expense:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| Operating lease cost | $ | 1,770 |  |  | $ | 429 |  |  | $ | 3,674 |  |  | $ | 730 |  |
| Finance lease cost: |  | |  |  |  | |  |  |  | |  |  |  | |  |
| Amortization of ROU assets |  | 225 |  |  |  | 3 |  |  |  | 490 |  |  |  | 3 |  |
| Interest on lease liabilities |  | 31 |  |  |  | — |  |  |  | 66 |  |  |  | — |  |
| Short-term lease cost |  | 112 |  |  |  | 53 |  |  |  | 1,042 |  |  |  | 245 |  |
| Total lease cost | $ | 2,138 |  |  | $ | 485 |  |  | $ | 5,272 |  |  | $ | 978 |  |

Supplemental information related to operating leases and finance lease was the following:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | **September 30, 2022** | |  |
| Weighted average remaining lease term - operating leases | 3.39 years | |  |
| Weighted average discount rate - operating leases |  | 3.82 | % |
| Weighted average remaining lease term -finance lease | 3.33 years | |  |
| Weighted average discount rate - finance lease |  | 3.98 | % |

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The following is a maturity analysis of operating and finance lease liabilities using undiscounted cash flows on an annual basis with renewal periods included:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **Operating Leases** | |  |  | **Finance Lease** | |  |
|  | **(in thousands)** | | | | | |  |
| Year Ending December 31, |  | |  |  |  | |  |
| 2022 (remaining 3 months) | $ | 1,717 |  |  | $ | 207 |  |
| 2023 |  | 6,579 |  |  |  | 1,033 |  |
| 2024 |  | 4,063 |  |  |  | 1,026 |  |
| 2025 |  | 2,112 |  |  |  | 544 |  |
| 2026 |  | 1,521 |  |  |  | 366 |  |
| 2027 |  | 1,360 |  |  |  | — |  |
| Thereafter |  | 217 |  |  |  | — |  |
| Total lease payments |  | 17,569 |  |  |  | 3,176 |  |
| Less imputed interest |  | (1,103 | ) |  |  | (199 | ) |
| Total | $ | 16,466 |  |  | $ | 2,977 |  |

***Lessor***

The Company leases out space in buildings it owns and leases to third-party tenants under noncancelable operating leases. As of September 30, 2022, the remaining lease terms left range from 3 months to 16 months, including renewal options and may include rent escalation clauses. Lease income primarily represents fixed lease payments from tenants recognized on a straight-line basis over the application lease term. Variable lease income represents tenant payments for real estate taxes, insurance and maintenance.

The lease income was included in interest and other income, net, in the accompanying Condensed Consolidated Statements of Income. Total lease income was as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| Lease income | $ | 48 |  |  | $ | 78 |  |  | $ | 229 |  |  | $ | 315 |  |
| Variable lease income |  | — |  |  |  | 1 |  |  |  | 12 |  |  |  | 6 |  |
| Total lease income | $ | 48 |  |  | $ | 79 |  |  | $ | 241 |  |  | $ | 321 |  |

Future fixed lease payments from tenants for all noncancelable operating leases as of September 30, 2022 are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | **Lease Payments** | |  |
|  | **from Tenants** | |  |
|  | **(in thousands)** | |  |
| Year Ending December 31, |  | |  |
| 2022 (remaining 3 months) | $ | 40 |  |
| 2023 |  | 93 |  |
| 2024 |  | 3 |  |
| 2025 |  | — |  |
| Total | $ | 136 |  |

**Note 10. Equity-Based Compensation**

The Company has included equity-based compensation expense as part of cost of revenue and operating expenses in the accompanying Condensed Consolidated Statements of Income as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| Cost of revenue | $ | 2,475 |  |  | $ | 962 |  |  | $ | 6,183 |  |  | $ | 2,328 |  |
| Research and development |  | 2,687 |  |  |  | 1,757 |  |  |  | 7,110 |  |  |  | 4,461 |  |
| Selling and marketing |  | 1,243 |  |  |  | 693 |  |  |  | 3,148 |  |  |  | 1,739 |  |
| General and administrative |  | 2,567 |  |  |  | 962 |  |  |  | 6,177 |  |  |  | 2,334 |  |
| Total | $ | 8,972 |  |  | $ | 4,374 |  |  | $ | 22,618 |  |  | $ | 10,862 |  |

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**Note 11. Provision for Income Taxes**

The effective tax rate used for interim periods is the estimated annual effective consolidated tax rate, based on the current estimate of full year results, except that taxes related to specific events, if any, are recorded in the interim period in which they occur. The annual effective tax rate is based upon several significant estimates and judgments, including the estimated annual pre-tax income of the Company in each tax jurisdiction in which it operates, and the development of tax planning strategies during the year. In addition, the Company’s tax expense can be impacted by changes in tax rates or laws and other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The Company recorded consolidated provision for income taxes of $414,000 and $51.5 million for the three and nine months ended September 30, 2022, respectively, compared with $37.5 million and $127.6 million for the three and nine months ended September 30, 2021, respectively. The Company’s effective tax rates was 24% for the three and nine months ended September 30, 2022, respectively, compared with 23% and 24% for the three and nine months ended September 30, 2021, respectively.

The Company is not currently under examination by any major income tax jurisdiction. During 2022, the statutes of limitations will lapse on the Company's 2018 federal tax year and certain 2017 and 2018 state tax years. The Company does not believe the federal or state statute lapses or any other event will significantly impact the balance of unrecognized tax benefits in the next twelve months. The net balance of unrecognized tax benefits was not material to the interim financial statements for the three and nine months ended September 30, 2022 and 2021.

**Note 12. Income per Share**

The following table presents the calculation of basic and diluted income per share for the three and nine months ended September 30, 2022 and 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands, except per share data)** | | | | | | | | | | | | | |  |
| Net income attributable to Fulgent | $ | 1,719 |  |  | $ | 122,522 |  |  | $ | 167,235 |  |  | $ | 403,025 |  |
| Weighted-average common shares—outstanding, basic |  | 30,174 |  |  |  | 29,673 |  |  |  | 30,256 |  |  |  | 29,221 |  |
| Weighted-average common shares—outstanding, diluted |  | 30,867 |  |  |  | 31,170 |  |  |  | 31,107 |  |  |  | 30,906 |  |
| Net income per common share, basic | $ | 0.06 |  |  | $ | 4.13 |  |  | $ | 5.53 |  |  | $ | 13.79 |  |
| Net income per common share, diluted | $ | 0.06 |  |  | $ | 3.93 |  |  | $ | 5.38 |  |  | $ | 13.04 |  |

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| Options |  | 7 |  |  |  | 5 |  |  |  | 10 |  |  |  | 5 |  |
| Restricted Stock Units |  | 1,238 |  |  |  | 241 |  |  |  | 697 |  |  |  | 129 |  |

The anti-dilutive shares described above were calculated using the treasury stock method.

**Note 13. Related Parties**

Linda Marsh, who is a member of the Company’s board of directors, is currently the Senior Executive Vice President of AHMC Healthcare Inc., or AHMC. The Company performs genetic testing and other testing services, on an arms-length basis, for AHMC, and the Company recognized $299,000 and $1.3 million in revenue from AHMC in the three and nine months ended September 30, 2022, respectively. The Company recognized $762,000 and $2.6 million in revenue in the three and nine months ended September 30, 2021, respectively. As of September 30, 2022 and December 31, 2021, $197,000 and $556,000, respectively, was owed to the Company by AHMC, which is included in trade accounts receivable, net, in the accompanying Condensed Consolidated Balance Sheets, in connection with this relationship.

The Company and Fulgent Pharma LLC, the Company’s former subsidiary and currently wholly-owned subsidiary of Fulgent Pharma Holdings, Inc., or Fulgent Pharma Holdings, are party to shared services arrangements where research and development,

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administrative services and office space and equipment are provided between the companies, on an arms-length basis. Until April 2022, Ming Hsieh was the manager and a member of Fulgent Pharma LLC. In April 2022, Fulgent Pharma LLC became a wholly-owned subsidiary of Fulgent Pharma Holdings which was 100% owned by Ming Hsieh, the Chief Executive Officer and Chairman of the Company’s board of directors, and the Hsieh Family Dynasty Trust, dated January 27, 2010, or the Hsieh Trust, of which Mr. Hsieh is the grantor. Mr. Hsieh and Paul Kim, the Chief Financial Officer and Treasurer of Fulgent Genetics, also served as executive officers of Fulgent Pharma Holdings as its (i) President and Chief Executive Officer and (ii) Treasurer and Secretary, respectively. The cost of research and development services rendered by Fulgent Pharma LLC for the Company was not significant in the three and nine months ended September 30, 2022. During the three and nine months ended September 30, 2021, the cost of research and development services rendered by Fulgent Pharma LLC for the Company was $74,000 and $279,000, respectively. Amounts for services performed by the Company for Fulgent Pharma LLC were not significant during the three and nine months ended September 30, 2022 and 2021. As of September 30, 2022, $66,000 was owed to the Company by Fulgent Pharma LLC, which was included in other current assets in the accompanying Condensed Consolidated Balance Sheets, in connection with these relationships. As of December 31, 2021, $679,000, was owed to Fulgent Pharma LLC by the Company, which was included in other current liabilities in the accompanying Condensed Consolidated Balance Sheets, in connection with these relationships. On November 7, 2022, the Company acquired Fulgent Pharma Holdings. See Note 17, *Subsequent Events*.

Ming Hsieh is the owner of PTJ Associates Inc., or PTJ. PTJ provides flight services to the Company on an arms-length basis. During the three and nine months ended September 30, 2022, the Company incurred zero and $235,000, respectively, in expenses for flights between California and Texas to transport employees and supplies. The Company incurred $65,000 and $142,000 in expenses for flights between California and Texas to transport employees and supplies in the three and nine months ended September 30, 2021, respectively. As of September 30, 2022 and December 31, 2021, no amount was owed to PTJ by the Company. Ming Hsieh is also on the board of directors and a 20% owner of ANP Technologies, Inc., or ANP. The Company purchased COVID-19 antigen rapid tests kits from ANP. During the three and nine months ended September 30, 2022, the Company purchased a total of $120,000 and $280,000 of COVID-19 antigen rapid tests kits, respectively. The Company did not incur such expense in the three and nine months ended September 30, 2021. As of September 30, 2022 and December 31, 2021, $69,000 and zero was owed to ANP by the Company in connection with this relationship.

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**Note 14. Goodwill and Acquisition-Related Intangibles**

Summaries of goodwill and intangibles balances assets as of September 30, 2022 and December 31, 2021 were as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  |  | **September 30,** | |  |  | **December 31,** | |  |
|  | **Weighted-Average Amortization Period** | **2022** | |  |  | **2021** | |  |
|  |  | **(in thousands)** | | | | | |  |
| Goodwill |  | $ | 120,313 |  |  | $ | 50,897 |  |
|  |  |  | |  |  |  | |  |
| Royalty-free technology | 10 Years | $ | 5,201 |  |  | $ | 5,803 |  |
| Less: accumulated amortization |  |  | (737 | ) |  |  | (387 | ) |
| Royalty-free technology, net |  |  | 4,464 |  |  |  | 5,416 |  |
|  |  |  | |  |  |  | |  |
| Customer relationships | 13 Years |  | 82,715 |  |  |  | 28,845 |  |
| Less: accumulated amortization |  |  | (4,608 | ) |  |  | (1,125 | ) |
| Customer relationships, net |  |  | 78,107 |  |  |  | 27,720 |  |
|  |  |  | |  |  |  | |  |
| Trade name | 8 Years |  | 3,790 |  |  |  | 1,090 |  |
| Less: accumulated amortization |  |  | (288 | ) |  |  | (45 | ) |
| Trade name, net |  |  | 3,502 |  |  |  | 1,045 |  |
|  |  |  | |  |  |  | |  |
| In-place lease intangible assets | 5 Years |  | 360 |  |  |  | — |  |
| Less: accumulated amortization |  |  | (29 | ) |  |  | — |  |
| In-place lease intangible assets, net |  |  | 331 |  |  |  | — |  |
|  |  |  | |  |  |  | |  |
| Laboratory information system platform | 5 Years |  | 1,860 |  |  |  | 1,860 |  |
| Less: accumulated amortization |  |  | (434 | ) |  |  | (155 | ) |
| Laboratory information system platform, net |  |  | 1,426 |  |  |  | 1,705 |  |
|  |  |  | |  |  |  | |  |
| Purchased patent | 10 Years |  | 28 |  |  |  | 31 |  |
| Less: accumulated amortization |  |  | (5 | ) |  |  | (3 | ) |
| Purchased patent, net |  |  | 23 |  |  |  | 28 |  |
| Total intangible assets, net |  | $ | 87,853 |  |  | $ | 35,914 |  |

Changes in the carrying amount of goodwill for the nine months ended September 30, 2022 are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | **Amounts** | |  |
|  | **(in thousands)** | |  |
| Balance as of January 1, 2022 |  | |  |
| Goodwill | $ | 50,897 |  |
| Accumulated impairment losses |  | — |  |
|  |  | 50,897 |  |
| Goodwill acquired during year |  | 71,844 |  |
| Net exchange differences |  | (2,428 | ) |
|  |  | |  |
| Balance as of September 30, 2022 |  | |  |
| Goodwill |  | 120,313 |  |
| Accumulated impairment losses |  | — |  |
|  | $ | 120,313 |  |

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Based on the carrying value of intangible assets recorded as of September 30, 2022, and assuming no subsequent impairment of the underlying assets, the annual amortization expense for intangible assets is expected to be as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | **Amounts** | |  |
|  | **(in thousands)** | |  |
| Year Ending December 31, |  | |  |
| 2022 (remaining 3 months) | $ | 1,960 |  |
| 2023 |  | 7,841 |  |
| 2024 |  | 7,841 |  |
| 2025 |  | 7,841 |  |
| 2026 |  | 7,536 |  |
| 2027 |  | 7,209 |  |
| Thereafter |  | 47,625 |  |
| Total | $ | 87,853 |  |

**Note 15. Business Combinations**

***Inform Diagnostics***

On April 26, 2022, the Company completed the acquisition of 100% of the outstanding equity of Symphony Buyer, Inc., or Inform Diagnostics, a leading national independent pathology laboratory based in Irving, Texas. Under the terms of the Agreement and Plan of Merger, dated April 16, 2022, or the Inform Merger Agreement, the total purchase price payable to the securityholders of Symphony Buyer, Inc. was approximately $170 million, as adjusted for closing cash, closing indebtedness, closing working capital, closing transaction expenses and other transaction matters. With the addition of Inform Diagnostics, the Company will further expand the Company’s genomic testing footprint and extend its test menu into breast pathology, gastrointestinal pathology, dermatopathology, urologic pathology, neuropathology, and hematopathology.

The financial results of Inform Diagnostics are included in the condensed consolidated financial statements from the date of acquisition. The Company allocated the purchase price to tangible and identified intangible assets acquired and liabilities assumed based on estimated fair values. During the three months ended September 30, 2022, the Company updated the purchase price allocation based on the finalized valuation of Inform Diagnostic's intangible and fixed assets. The following tables summarizes the consideration paid and the updated amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  | **Amounts** | |  |
|  | **(in thousands)** | |  |
| Considerations |  | |  |
| Cash, net of cash received | $ | 137,755 |  |
|  |  | |  |
|  |  | |  |
| **Recognized amounts of identifiable assets acquired and liabilities assumed** |  | |  |
| Net working capital | $ | (15,024 | ) |
| Fixed assets |  | 20,242 |  |
| ROU assets - operating |  | 12,653 |  |
| ROU assets - finance |  | 1,183 |  |
| Deferred tax assets |  | 3,410 |  |
| Other long-term assets |  | 4,711 |  |
| Identifiable intangible assets |  | 57,060 |  |
| Operating lease liabilities |  | (12,653 | ) |
| Finance lease liabilities |  | (1,183 | ) |
| Income tax payable |  | (40 | ) |
| Other long-term liabilities |  | (4,449 | ) |
| Recognized amounts of identifiable assets acquired and liabilities assumed, net |  | 65,910 |  |
| Goodwill |  | 71,845 |  |
| Total | $ | 137,755 |  |

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The goodwill of $71.8 million arising from the acquisition is attributed to the expected synergies, assembled workforce, other benefits that will be potentially generated from the combination and deferred tax. The goodwill recognized is not deductible for tax purposes.

The identified intangible assets acquired consisted of $54.0 million customer relationships with an estimated amortization life of 14 years, $2.7 million trade name with an estimated amortization life of 7 years, and $360,000 in-place lease intangible asset to be amortized over the remaining lease term of 5 years.

The fair value of the customer relationship was estimated using the Multiperiod Excess Earnings Method, or MPEEM, of the income approach. Under the MPEEM, an intangible asset’s fair value is equal to the present value of the incremental after-tax cash flows attributable only to the subject intangible asset after deducting contributory asset charges. The incremental after-tax cash flows attributable to the customer relationships are then discounted to their present value at a risk-adjusted rate of return. The fair value of the trade name was estimated using the relief from royalty, or RFR, method. The RFR method estimates the portion of the Company's earnings attributable to an intangible asset based on the royalty rate the Company would have paid for the use of the asset if it did not own it. The fair value of in-place lease intangible asset was estimated using the discounted cash flow under the income approach. The useful lives of the intangible assets for amortization purposes were determined by considering the period of expected cash flows used to measure the fair values of the intangible assets adjusted as appropriate for entity-specific factors including legal, regulatory, contractual, competitive, economic and other factors that may limit the useful life. The customer relationships and trade name are amortized on a straight-line basis over their estimated useful lives.

Revenue and operating loss from the Inform Diagnostics acquisition since the acquisition date are $53.9 million and $11.2 million, respectively, which are included in the accompanying Condensed Consolidated Statements of Income.

The transaction costs associated with the acquisition of Inform Diagnostics consisted primarily of legal, regulatory and financial advisory fees of approximately $166,000 and $6.6 million for the three and nine months ended September 30, 2022, respectively. These transaction costs were expensed as incurred as selling, general and administrative expense in the respective periods.

**Unaudited Pro Forma Financial Information**

The following unaudited pro forma financial information summarizes the combined results of operations of Fulgent and Inform Diagnostics as if the companies had been combined as of the beginning of 2021. The pro forma financial information has been adjusted for the following:

*Acquisition-related costs* - Acquisition-related costs incurred by both Fulgent and Inform Diagnostics were excluded from the net income attributable to Fulgent, and total costs were $166,000 and $9.6 million for the three and nine months ended September 30, 2022, respectively.

Other adjustments to the net income attributable to Fulgent were zero and $772,000 for three and nine months ended September 30, 2022, respectively, and $579,000 and $1.7 million for the three and nine months ended September 30, 2021, respectively. Other adjustments to revenue were zero and $962,000 million for the three and nine months ended September 30, 2022, respectively, and $1.3 million and $3.0 million were added back to revenue for the three and nine months ended September 30, 2021, respectively.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended September 30,** | | | | | |  |  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | | | | | | | | | |  |
| Revenue | $ | 105,655 |  |  | $ | 261,809 |  |  | $ | 591,682 |  |  | $ | 851,660 |  |
| Net income attributable to Fulgent | $ | 1,885 |  |  | $ | 121,053 |  |  | $ | 164,120 |  |  | $ | 403,631 |  |
| Basic earnings per common share attributable to Fulgent | $ | 0.06 |  |  | $ | 4.08 |  |  | $ | 5.42 |  |  | $ | 13.81 |  |
| Diluted earnings per common share attributable to Fulgent | $ | 0.06 |  |  | $ | 3.88 |  |  | $ | 5.28 |  |  | $ | 13.06 |  |

**Note 16. Stock Repurchase Program**

In March 2022, the Company's Board authorized a $250.0 million stock repurchase program. Under the stock repurchase program, the Company may repurchase shares from time to time in the open market or in privately negotiated transactions. The stock repurchase program has no expiration from the date of authorization. During the three months ended September 30, 2022, the Company repurchased 780,000 shares of its common stock at an aggregate cost of $34.7 million under the stock repurchase program. During the nine months ended September 30, 2022, the Company repurchased 995,000 shares of its common stock at an aggregate

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cost of $45.3 million under the stock repurchase program. As of September 30, 2022, a total of approximately $204.7 million remained available for future repurchases of its common stock under the stock repurchase program.

**Note 17. Subsequent Events**

***Fulgent Pharma Holdings Acquisition***

On November 7, 2022, the Company entered into and completed its acquisition of Fulgent Pharma Holdings, pursuant to an Agreement and Plan of Merger, or the Pharma Merger Agreement, by and among Fulgent Genetics, FG Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Fulgent Genetics, or Merger Sub, Fulgent Pharma Holdings, and solely for purposes of Section 2.4, Section 5.5, Article VI, Section 7.8 and Section 7.14 of the Pharma Merger Agreement, Mr. Hsieh and the Hsieh Trust. Under the terms of the Pharma Merger Agreement, Merger Sub merged with and into Fulgent Pharma Holdings, or the Pharma Merger, with Fulgent Pharma Holdings being the surviving corporation following the Pharma Merger.

As consideration for the Pharma Merger, Fulgent Genetics paid an aggregate of approximately $100 million in exchange for all of the outstanding equity interests of Fulgent Pharma Holdings, comprised of approximately $43.4 million in cash, approximately $30.7 million in Fulgent Genetics’ common stock, or the Stock Consideration, subject to customary adjustments for closing cash, closing indebtedness, transaction expenses and other transaction matters. A portion of the Stock Consideration was held back for a duration of time after the closing of the transaction to satisfy certain indemnification obligations of the Pharma Stockholders as described in the Pharma Merger Agreement. In addition, restricted stock units to acquire shares of common stock of Fulgent Pharma Holdings held by Paul Kim, the Company’s Chief Financial Officer, Jian Xie, the Company’s President and Chief Operating Officer, Hanlin Gao, the Company’s Chief Scientific Officer and other employees of the Company and consultants of Fulgent Pharma LLC were assumed by the Company and became restricted stock units to acquire 77,585, 129,309, 51,723, 117,398, and 286,998 shares of common stock of the Company, respectively, which have an approximate value of $25.9 million. The restricted stock units are subject to vesting over the four-year period immediately following the date of their original grant, subject to the holder’s continuing service.

The Pharma Merger Agreement contains representations, warranties and covenants by the parties customary for a transaction of this nature. Breaches of representations and warranties are subject to customary indemnification provisions.

***Stock Repurchase Program***

Subsequent to September 30, 2022 and as of October 31, 2022, the Company repurchased 244,000 shares of its common stock at an aggregate cost of $9.1 million under the stock repurchase program approved in March 2022. See Note 16, *Stock Repurchase Program.*

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

*The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes included in this report. Additionally, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K promulgated by the Securities and Exchange Commission in preparing this discussion and analysis, we presume that readers have access to and have read the discussion and analysis of our financial condition and results of operations included in our annual report on Form 10-K for our fiscal year ended December 31, 2021 filed with the U.S. Securities and Exchange Commission, or SEC, on February 28, 2022, or the 2021 Annual Report. As used in this discussion and analysis and elsewhere in this report, unless the context otherwise requires, the terms “Fulgent,” the “Company,” “we,” “us” and “our” refer to Fulgent Genetics, Inc. and its consolidated subsidiaries.*

***Forward-Looking Statements***

*The following discussion and analysis contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are statements other than historical facts and relate to future events or circumstances or our future performance, and they are based on our current assumptions, expectations and beliefs concerning future developments and their potential effect on our business. The forward-looking statements in this discussion and analysis include statements about, among other things, our future financial and operating performance, our future cash flows and liquidity and our growth strategies, as well as anticipated trends in our business and industry. These forward-looking statements are subject to a number of risks and uncertainties, including, among others, those described under “Item 1A. Risk Factors” in Part I of the 2021 Annual Report and under “Item 1A. Risk Factors” in Part II of this Quarterly Report. Moreover, we operate in a competitive and rapidly evolving industry and new risks emerge from time to time. It is not possible for us to predict all of the risks we may face, nor can we assess the impact of all factors on our business or the extent to which any factor or combination of factors could cause actual results to differ from our expectations.* *In light of these risks and uncertainties, the forward-looking events and circumstances described in this discussion and analysis may not occur, and actual results could differ materially and adversely from those described in or implied by any forward-looking statements we make. Although we have based our forward-looking statements on assumptions and expectations we believe are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. As a result, forward-looking statements should not be relied on or viewed as predictions of future events, and this discussion and analysis should be read with the understanding that actual future results, levels of activity, performance and achievements may be materially different than our current expectations. The forward-looking statements in this discussion and analysis speak only as of the date of this report, and except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report to conform these statements to actual results or to changes in our expectations.*

**Overview**

We are a technology company offering large-scale COVID-19 testing services, molecular diagnostic testing services and comprehensive genetic testing designed to provide physicians and patients with clinically actionable diagnostic information to improve the quality of patient care. A cornerstone of our business is our ability to provide expansive options and flexibility for all clients’ unique testing needs. To this end, we have developed a proprietary technology platform allowing us to offer a broad and flexible test menu and to continually expand and improve our proprietary genetic reference library, while maintaining accessible pricing, high accuracy and competitive turnaround times. Combining next generation sequencing, or NGS, with our technology platform, we perform full-gene sequencing with deletion/duplication analysis in single-gene tests; pre-established, multi-gene, disease-specific panels; and customized panels that can be tailored to meet specific customer needs.

Our technology platform, which integrates sophisticated data comparison and suppression algorithms, adaptive learning software, in comparison to our competitors advanced genetic diagnostics tools and integrated laboratory processes, allows us to offer a test menu with expansive genetic coverage. We believe the comprehensive data output and high detection rates of our tests, both made possible by this expansive genetic coverage, provide physicians with information they can readily incorporate into treatment decisions for their patients, which we refer to as clinical actionability. In addition, our technology platform facilitates our ability to perform customized genetic tests using our expansive library of genes, and we believe this flexibility increases the utility of the genetic data we produce. Further, our technology platform provides us with operating efficiencies that help lower our internal costs, which allows us to offer our tests at accessible price points. As a result, our efforts to build and continually enhance our technology platform allow us to deliver comprehensive, adaptable, clinically actionable and affordable genetic analysis while maintaining a low cost per billable test, enabling us to efficiently meet the needs of our growing base of customers.

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We offer tests at competitive prices, averaging approximately $100 per billable test delivered in the nine months ended September 30, 2022, and at a low cost to us, averaging approximately $36 per billable test delivered in the nine months ended September 30, 2022. We delivered approximately 952,000 and over 5.5 million billable tests in the three and nine months ended September 30, 2022, respectively, compared to approximately 2.2 million and over 7.5 million billable tests delivered in the three and nine months ended September 30, 2021, respectively. We recorded revenue and net income of $105.7 million and $1.7 million, respectively, in the three months ended September 30, 2022, compared to revenue and net income of $227.9 million and $122.5 million, respectively, in three months ended September 30, 2021. We recorded revenue and net income of $551.3 million and $167.2 million, respectively, in the nine months ended September 30, 2022, compared to revenue and net income of $740.9 million and $403.0 million, respectively, in nine months ended September 30, 2021. As of September 30, 2022, an aggregate of over 20.0 million billable tests have been delivered to over 3,000 customers since launching our first commercial genetic tests in 2013. We achieved profitability in the first half of 2017, and in the second and the third quarter of 2019, the second, third and fourth quarters of 2020, each quarter of 2021, and the first three quarters of 2022, but we have recorded losses in all other periods since our inception.

**COVID-19 Considerations**

During the first three quarters of 2022, and for the entirety of the COVID-19 pandemic to such point, we continued to operate as an essential business in response to COVID-19. There has been strong demand for accurate COVID-19 testing with rapid turn-around times as private businesses, municipalities and healthcare providers began to increasingly rely on diagnostic testing to continue operations and as a tool to aide containment efforts, and as result we have recognized significant revenue growth in connection with sales of our COVID-19 tests. However, demand for our COVID-19 testing solutions has declined and we do expect demand to continue to decline when and as the pandemic recedes. The continuing market for COVID-19 diagnostic tests remains subject to a number of uncertainties, including uncertainties regarding the newly emerging viral variants, the success of global vaccine distribution efforts, the effectiveness of vaccines on new viral variants and customer and consumer preferences regarding the use of rapid testing. Our ability to continue to operate as currently planned, including our ability to continue to offer our COVID‑19 tests with accurate results and competitive turn-around times without any significant negative operational impact from the COVID-19 pandemic will depend in part on our, and any of our third‑party service providers’ and suppliers’ ability to protect our respective employees and supply chains.

The COVID-19 pandemic has not negatively impacted the Company’s liquidity position as of September 30, 2022, and in the first three quarters of 2022 and 2021, the COVID-19 pandemic did not have a negative impact on our consolidated operating results. We have not incurred any material impairments of our assets or a significant change in the fair value of our assets due to the COVID-19 pandemic as of September 30, 2022.

For additional information on risk factors related to the COVID-19 pandemic or other risks that could impact our results, please refer to “Item 1A. Risk Factors” in Part I of the 2021 Annual Report and “Item 1A. Risk Factors” in Part II of this Quarterly Report.

**Business Risks and Uncertainties and Other Factors Affecting Our Performance**

Our business and prospects are exposed to numerous risks and uncertainties. For more information, see “Item 1A. Risk Factors” in Part I of the 2021 Annual Report and “Item 1A. Risk Factors” in Part II of this Quarterly Report. In addition, our performance in any period is affected by a number of other factors. See the description of some of the material factors affecting our performance in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the 2021 Annual Report.

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**Results of Operations**

The table below summarizes our results of operations for the periods indicated. For a financial overview relating to our results of operations, including general descriptions of the make-up of material line items of our statement of income data, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the 2021 Annual Report.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Three Months Ended** | | | | | |  |  |  | |  |  |  |  | **Nine Months Ended** | | | | | |  |  |  | |  |  |  |
|  | **September 30,** | | | | | |  |  | **$** | |  |  | **%** |  | **September 30,** | | | | | |  |  | **$** | |  |  | **%** |
|  | **2022** | |  |  | **2021** | |  |  | **Change** | |  |  | **Change** |  | **2022** | |  |  | **2021** | |  |  | **Change** | |  |  | **Change** |
| **Statement of Income Data:** | **(dollars and billable tests in thousands, except per billable test data)** | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Revenue | $ | 105,655 |  |  | $ | 227,868 |  |  | $ | (122,213 | ) |  | (54%) |  | $ | 551,264 |  |  | $ | 740,913 |  |  | $ | (189,649 | ) |  | (26%) |
| Cost of revenue |  | 59,560 |  |  |  | 43,466 |  |  |  | 16,094 |  |  | 37% |  |  | 197,350 |  |  |  | 153,399 |  |  |  | 43,951 |  |  | 29% |
| Gross profit |  | 46,095 |  |  |  | 184,402 |  |  |  | (138,307 | ) |  | (75%) |  |  | 353,914 |  |  |  | 587,514 |  |  |  | (233,600 | ) |  | (40%) |
| Operating expenses: |  | |  |  |  | |  |  |  | |  |  |  |  |  | |  |  |  | |  |  |  | |  |  |  |
| Research and development |  | 7,507 |  |  |  | 6,021 |  |  |  | 1,486 |  |  | 25% |  |  | 20,401 |  |  |  | 16,755 |  |  |  | 3,646 |  |  | 22% |
| Selling and marketing |  | 9,859 |  |  |  | 6,012 |  |  |  | 3,847 |  |  | 64% |  |  | 28,665 |  |  |  | 16,239 |  |  |  | 12,426 |  |  | 77% |
| General and administrative |  | 26,266 |  |  |  | 12,299 |  |  |  | 13,967 |  |  | 114% |  |  | 82,281 |  |  |  | 28,630 |  |  |  | 53,651 |  |  | 187% |
| Amortization of intangible assets |  | 2,006 |  |  |  | 797 |  |  |  | 1,209 |  |  | 152% |  |  | 4,487 |  |  |  | 797 |  |  |  | 3,690 |  |  | 463% |
| Restructuring costs |  | 105 |  |  |  | — |  |  |  | 105 |  |  | \* |  |  | 3,001 |  |  |  | — |  |  |  | 3,001 |  |  | \* |
| Total operating expenses |  | 45,743 |  |  |  | 25,129 |  |  |  | 20,614 |  |  | 82% |  |  | 138,835 |  |  |  | 62,421 |  |  |  | 76,414 |  |  | 122% |
| Operating income |  | 352 |  |  |  | 159,273 |  |  |  | (158,921 | ) |  | (100%) |  |  | 215,079 |  |  |  | 525,093 |  |  |  | (310,014 | ) |  | (59%) |
| Interest and other income, net |  | 1,405 |  |  |  | 496 |  |  |  | 909 |  |  | 183% |  |  | 2,408 |  |  |  | 1,382 |  |  |  | 1,026 |  |  | 74% |
| Income before income taxes and gain on equity method investment |  | 1,757 |  |  |  | 159,769 |  |  |  | (158,012 | ) |  | (99%) |  |  | 217,487 |  |  |  | 526,475 |  |  |  | (308,988 | ) |  | (59%) |
| Provision for income taxes |  | 414 |  |  |  | 37,545 |  |  |  | (37,131 | ) |  | (99%) |  |  | 51,488 |  |  |  | 127,647 |  |  |  | (76,159 | ) |  | (60%) |
| Income before gain on equity method investment |  | 1,343 |  |  |  | 122,224 |  |  |  | (120,881 | ) |  | (99%) |  |  | 165,999 |  |  |  | 398,828 |  |  |  | (232,829 | ) |  | (58%) |
| Gain on equity method investment |  | — |  |  |  | — |  |  |  | — |  |  | \* |  |  | — |  |  |  | 3,734 |  |  |  | (3,734 | ) |  | (100%) |
| Net income from consolidated operations |  | 1,343 |  |  |  | 122,224 |  |  |  | (120,881 | ) |  | (99%) |  |  | 165,999 |  |  |  | 402,562 |  |  |  | (236,563 | ) |  | (59%) |
| Net loss attributable to noncontrolling interests |  | 376 |  |  |  | 298 |  |  |  | 78 |  |  | 26% |  |  | 1,236 |  |  |  | 463 |  |  |  | 773 |  |  | 167% |
| Net income attributable to Fulgent | $ | 1,719 |  |  | $ | 122,522 |  |  | $ | (120,803 | ) |  | (99%) |  | $ | 167,235 |  |  | $ | 403,025 |  |  | $ | (235,790 | ) |  | (59%) |
|  |  | |  |  |  | |  |  |  | |  |  |  |  |  | |  |  |  | |  |  |  | |  |  |  |
| **Other Operating Data:** |  | |  |  |  | |  |  |  | |  |  |  |  |  | |  |  |  | |  |  |  | |  |  |  |
| Billable tests delivered(1) |  | 952 |  |  |  | 2,177 |  |  |  | (1,225 | ) |  | (56%) |  |  | 5,511 |  |  |  | 7,510 |  |  |  | (1,999 | ) |  | (27%) |
| Average price per billable test delivered(2) | $ | 111 |  |  | $ | 105 |  |  | $ | 6 |  |  | 6% |  | $ | 100 |  |  | $ | 99 |  |  | $ | 1 |  |  | 1% |
| Cost per billable test delivered(3) | $ | 63 |  |  | $ | 20 |  |  | $ | 43 |  |  | 215% |  | $ | 36 |  |  | $ | 20 |  |  | $ | 16 |  |  | 80% |

\* Percentage not meaningful.

(1) We determine the number of billable tests delivered in a period by counting the number of tests which are delivered to our customers and for which we bill our customers and recognize some amount of revenue in the period.

(2) We calculate the average price per billable test delivered by dividing the amount of revenue we recognized from the billable tests delivered in a period by the number of billable tests delivered in the same period.

(3) We calculate cost per billable test delivered by dividing our cost of revenue in a period by the number of billable tests delivered in the same period.

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**Revenue**

Revenue decreased $122.2 million, or 54%, from $227.9 million in the three months ended September 30, 2021 to $105.7 million in the three months ended September 30, 2022, and decreased $189.6 million, or 26%, from $740.9 million in the nine months ended September 30, 2021 to $551.3 million in the nine months ended September 30, 2022. The decreases in revenue between periods were primarily due to decreases in the number of billable tests delivered, primarily related to decreased orders for our COVID-19 tests.

The average price of the billable tests we delivered increased from $105 in the three months ended September 30, 2021 to $111 in the three months ended September 30, 2022, and increased from $99 in the nine months ended September 30, 2021 to $100 in the nine months ended September 30, 2022. The change in average price between periods was due to the mix of tests delivered and the mix of customers ordering tests in these periods, who may order tests at different rates depending on the arrangements we have negotiated with them.

Revenue from non-U.S. sources decreased $43,000, or 1%, from $4.2 million in the three months ended September 30, 2021 to $4.1 million in the three months ended September 30, 2022, and increased $634,000, or 6%, from $9.8 million in nine months ended September 30, 2021 to $10.5 million in the nine months ended September 30, 2022. The changes in revenue from non-U.S. sources between periods were due to timing of sales of core genetic testing services to customers in China and other non-US countries.

The number of billable tests we delivered decreased 1.2 million, from 2.2 million in the three months ended September 30, 2021 to 952,000 in the three months ended September 30, 2022, and decreased 2.0 million, from 7.5 million in the nine months ended September 30, 2021 to 5.5 million in the nine months ended September 30, 2022. The decrease was primarily attributable to the decrease of COVID-19 tests.

After aggregating customers that are under common control or affiliation, one customer contributed 13% and 21% of the Company’s revenue in the three and nine months ended September 30, 2022, respectively. Two customers contributed 31% and 11%, respectively, of the Company’s revenue for the three months ended September 30, 2021, and one customer contributed 26% of the Company’s revenue for the nine months ended September 30, 2021.

**Cost of Revenue**

Cost of revenue increased $16.1 million, or 37%, from $43.5 million in the three months ended September 30, 2021 to $59.6 million in the three months ended September 30, 2022. The increase was primarily due to increases of $15.5 million in personnel costs including equity-based compensation expense primarily from the acquisition of Inform Diagnostics, $4.3 million in depreciation expenses related to medical lab equipment purchased and depreciation expense from Inform Diagnostics, $2.3 million in allocated facility expenses, and $1.3 million in shipping and handling expense from Inform Diagnostics, and partially offset by decreases of $6.2 million in reagents and supplies, $1.3 million in consulting and outside labor costs, and $660,000 in external customer engagement platform expense related to decreased billable tests delivered

Cost of revenue increased $44.0 million, or 29%, from $153.4 million in the nine months ended September 30, 2021 to $197.4 million in the nine months ended September 30, 2022. The increase was primarily due to increases of $33.8 million in personnel costs including equity-based compensation expense primarily from Inform Diagnostics acquired in current year, $9.9 million in depreciation expenses related to medical lab equipment purchased and depreciation expense from Inform Diagnostics, $7.8 million in consulting and outside labor costs for production, $4.7 million in allocated facility expenses, and $1.6 million in shipping and handling expense from Inform Diagnostics, and partially offset by decreases of $12.2 million in reagent and supply expenses and $3.7 million in external customer engagement platform expense related to decreased billable tests delivered.

Cost per billable test delivered increased $43, or 215%, from $20 in the three months ended September 30, 2021 to $63 in the three months ended September 30, 2022, and increased $16, or 80%, from $20 in the nine months ended September 30, 2021 to $36 in the nine months ended September 30, 2022. The increase in cost per billable tests was primarily due to the mix of tests we delivered in 2022 and different cost structure of Inform Diagnostics.

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Our gross profit decreased $138.3 million, from $184.4 million in the three months ended September 30, 2021 to $46.1 million in the three months ended September 30, 2022, and decreased $233.6 million, from $587.5 million in the nine months ended September 30, 2021 to $353.9 million in the nine months ended September 30, 2022. Our gross profit as a percentage of revenue, or gross margin, decreased from 80.9% to 43.6% between three months ended September 30, 2021 and 2022, and decreased from 79.3% to 64.2% between nine months ended September 30, 2021 and 2022, due to the decrease in revenue and increases in our cost per billable test and cost of revenue for reasons described above.

**Research and Development**

Research and development expenses increased $1.5 million, or 25%, from $6.0 million in the three months ended September 30, 2021 to $7.5 million in the three months ended September 30, 2022. The increase was primarily due to increases of $2.0 million in personnel costs including equity-based compensation expense related to increased headcount, and partially offset by a decrease of $604,000 in reagent and supply expenses related to decreased reagent usage for research.

Research and development expenses increased $3.6 million, or 22%, from $16.8 million in the nine months ended September 30, 2021 to $20.4 million in the nine months ended September 30, 2022. The increase was primarily due to increases of $5.0 million in personnel costs including equity-based compensation expense related to increased headcount, and partially offset by decreases of $1.1 million in reagent and supply expenses related to decreased reagent usage for research and $750,000 in donations to COVID-19 research fund and colorectal cancer research made in the prior period.

**Selling and Marketing**

Selling and marketing expenses increased $3.8 million, or 64% from $6.0 million in the three months ended September 30, 2021 to $9.9 million in the three months ended September 30, 2022. The increase was primarily due to increases of $2.5 million in personnel costs including equity-based compensation expense related to increased headcount, and $1.2 million in software expense from Inform Diagnostics.

Selling and marketing expenses increased $12.4 million, or 77% from $16.2 million in the nine months ended September 30, 2021 to $28.7 million in the nine months ended September 30, 2022. The increase was primarily due to increases of $7.9 million in personnel costs including equity-based compensation expense related to increased headcount, $2.3 million in software expense from Inform Diagnostics acquired in current year, $1.2 million in consulting and outside labor related to marketing projects in the current period, $775,000 in travel expense from Inform Diagnostics acquired in current year, and $587,000 in commission expense from Inform Diagnostics acquired in current year.

**General and Administrative**

General and administrative expenses increased $14.0 million, or 114% from $12.3 million in the three months ended September 30, 2021 to $26.3 million in the three months ended September 30, 2022. The increase was primarily due to increases of $5.7 million in personnel costs including equity-based compensation expense related to increased headcount, $5.2 million in additional provision for credit losses, $1.4 million related to allocated facility expense, $1.1 million in license and permit expense from Inform Diagnostics acquired in current year, $808,000 in legal and professional fees primarily related to general corporate matters, $798,000 in accounting fees related to financial statement and internal control audits, and $670,000 in depreciation expense from Inform Diagnostics acquired in current year and $604,000 in business insurance expenses, and partially offset by a decrease of $2.5 million in consulting cost related to the acquisition in the prior period.

General and administrative expenses increased $53.7 million, or 187% from $28.6 million in the nine months ended September 30, 2021 to $82.3 million in the nine months ended September 30, 2022. The increase was primarily due to $20.7 million in additional provision for credit losses, increases of $15.0 million in personnel costs including equity-based compensation expense related to increased headcount, $4.1 million in acquisition related costs related to Inform Diagnostics acquired in current year, $3.8 million in legal and professional fees primarily related to general corporate matters, $2.4 million related to allocated facility expense, $2.1 million in license and permit expense from Inform Diagnostics acquired in current year, $1.9 million in business insurance expense, $1.8 million in accounting fees related to financial statement and internal control audits, and $1.1 million in depreciation expense from Inform Diagnostics acquired in current year.

**Amortization of Intangible Assets**

Amortization of intangible assets represents amortization expenses on the intangible assets arising from the business combinations and a purchased patent. Amortization expenses were $2.0 million and $797,000 in the three months ended September 30, 2022 and 2021, respectively, and $4.5 million and $797,000 in the nine months ended September 30, 2022 and 2021, respectively.

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**Restructuring Costs**

Restructuring expenses represent one-time employee termination benefits provided to employees associated with an entity newly acquired that are involuntarily terminated. Expenses were $105,000 and zero in the three months ended September 30, 2022 and 2021, respectively, and $3.0 million and zero in the nine months ended September 30, 2022 and 2021, respectively.

**Interest and Other Income, net**

Net interest income was $1.5 million and $443,000 in the three months ended September 30, 2022 and 2021, respectively, and $2.3 million and $1.2 million in the nine months ended September 30, 2022 and 2021, respectively. This interest income related to interest earned on various investments in marketable securities including realized and holding gain (loss) on marketable equity securities, net of interest expenses incurred for our notes payable and margin loan.

Other income (expense) was not significant in the three or nine months ended September 30, 2022 and 2021, respectively. The primary components of other income (expense) were rental income net of rental expenses and foreign currency exchange gain (loss).

**Provision for Income Taxes**

Provision for income taxes were $414,000 and $51.5 million for the three and nine months ended September 30, 2022, respectively, and $37.5 million and $127.6 million for the three and nine months ended September 30, 2021, respectively. The effective tax rate was 24% for the three and nine months ended September 30, 2022, and 23% and 24% for the three and nine months ended September 30, 2021, respectively.

**Net Loss Attributable to Noncontrolling Interest**

Net loss attributable to noncontrolling interest represents net loss attributable to the minority shareholders from entities not wholly owned.

**Liquidity and Capital Resources**

**Liquidity and Sources of Cash**

We had $918.0 million and $935.5 million in cash, cash equivalents and marketable securities as of September 30, 2022 and December 31, 2021, respectively. Our marketable securities primarily consist of corporate bonds, municipal bonds, and U.S. government and U.S. agency debt securities, U.S. treasury bills, and Yankee debt securities as of September 30, 2022 and December 31, 2021.

Our primary uses of cash are to fund our operations as we continue to invest in and seek to grow our business. Cash used to fund operating expenses is impacted by the timing of our expense payments, as reflected in the changes in our outstanding accounts payable and accrued expenses.

We believe our existing cash, cash equivalent, short-term marketable securities, along with cash from operations, will be sufficient to meet our anticipated cash requirements for at least the next 12 months. Cash provided by operations has significantly contributed to our ability to meet our liquidity needs, including paying for capital expenditures, and we anticipate that cash from our operations will continue to play a meaningful role in our ability to meet our liquidity requirements and pursue our business plans and strategies during the next 12 months and in the longer term.

However, our expectations regarding the cash that may be provided by our operations and our cash needs in future periods could turn out to be wrong. For instance, cash provided by our operations has in the past experienced fluctuations from period to period, which we expect may continue in the future. These fluctuations can occur because of a variety of factors, including, among others, factors relating to the ongoing COVID-19 pandemic, including demand for our COVID-19 tests, the amount and timing of sales of billable tests, the prices we charge for our tests due to changes in product mix, customer mix, general price degradation for tests, funding of government programs from which we receive government funding, or other factors, the rate and timing of our billing and collections cycles and the timing and amount of our commitments and other payments. Moreover, even if our liquidity expectations are correct, we may still seek to raise additional capital through securities offerings, credit facilities or other debt financings, asset sales or collaborations or licensing arrangements.

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

**Cash Flows**

The following table summarizes our cash flows for each of the periods indicated:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  | **Nine Months Ended September 30,** | | | | | |  |
|  | **2022** | |  |  | **2021** | |  |
|  | **(in thousands)** | | | | | |  |
| Net cash provided by operating activities | $ | 220,313 |  |  | $ | 461,491 |  |
| Net cash used in investing activities | $ | (168,715 | ) |  | $ | (406,289 | ) |
| Net cash (used in) provided by financing activities | $ | (47,548 | ) |  | $ | 72,251 |  |

*Operating Activities*

Cash provided by operating activities in the nine months ended September 30, 2022 was $220.3 million. The difference between net income and cash provided by operating activities for the period was primarily due to the effects of $25.3 million in provision for credit losses, $22.9 million in the depreciation and amortization, $22.6 million in equity-based compensation expenses, $4.2 million in amortization of premium of marketable securities, $3.3 million in noncash lease expense, $1.1 million in unrecognized tax benefits, and partially offset by a negative impact of $4.9 million increased deferred tax assets. Cash used in operating activities decreased between periods primarily due to decreases of $32.3 million in accounts payable related to timing of payments, $12.9 million in accrued liabilities and other liabilities, $3.3 million in operating and finance lease liabilities, and partially offset by decreases of $24.2 million in trade accounts receivable due to timing of collections and $3.7 million in other current and long-term assets primarily reagents and supplies and prepaid expenses.

Cash provided by operating activities in the nine months ended September 30, 2021 was $461.5 million. The difference between net income and cash provided by operating activities for the period was primarily due to the effects of $10.9 million in equity-based compensation expenses and $7.5 million in the depreciation and amortization. Cash provided by operating activities increased between periods primarily due to a decrease of $65.0 million in trade receivable due to timing of payments, an increase of $40.9 million in customer deposit due to payments received from customer in excess of their outstanding trade accounts receivable balances, partially offset by the negative impact of decreases of $35.4 million in income tax payable due to the estimated tax payments made during the current period, $18.7 million in contract liabilities due to the timing of payments, $9.0 million in accounts payable due to the timing of payments, and an increase of $2.1 million in other current and long-term assets related to additions in reagents and supplies.

*Investing Activities*

Cash used in investing activities in the nine months ended September 30, 2022 was $168.7 million, which primarily related to $257.3 million on purchase of marketable securities and $137.8 million payment related to acquisition of Inform Diagnostics, $15.0 million purchase of preferred stock of a privately held company, purchases of $14.1 million of fixed assets, and $10.0 million contingent consideration payment made in current period related to a business acquisition in 2021, and partially offset by proceeds of $133.4 million from sale of marketable securities and $131.7 million related to maturities of marketable securities.

Cash used in investing activities in the nine months ended September 30, 2021 was $406.3 million, which primarily related to purchases of $523.9 million of marketable securities, $61.9 million related to business acquisitions, and the purchase of $17.8 million of fixed assets consisting mainly of medical laboratory equipment and building construction, partially offset by proceeds of $155.8 million related to sales of marketable securities and $61.5 million related to maturities of marketable securities.

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*Financing Activities*

Cash used in financing activities in the nine months ended September 30, 2022 was $47.5 million, which primarily related to $45.3 million repurchase of common stock and $1.5 million related to common stock withholding for employee tax obligations.

Cash provided by financing activities in the nine months ended September 30, 2021 was $72.3 million, which primarily represents net proceeds from that certain equity distribution agreement, dated as of November 20, 2020.

**Stock Repurchase Program**

In March 2022, our Board authorized a $250.0 million stock repurchase program. The stock repurchase program has no expiration from the date of authorization. Under the stock repurchase program, the Company may repurchase shares from time to time in the open market or in privately negotiated transactions.

During the three and nine months ended September 30, 2022, we repurchased approximately $34.7 million and $45.3 million, respectively, of our common stock under our stock repurchase programs. As of September 30, 2022, a total of approximately $204.7 million remained available for future repurchases of our common stock under our stock repurchase programs.

**Critical Accounting Policies and Use of Estimates**

There have been no material changes to our critical accounting policies or estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in the 2021 Annual Report.

**Recent Accounting Pronouncements**

See Note 2, *Summary of Significant Accounting Policies*, to our condensed consolidated financial statements included in this report for information about recent accounting pronouncements.

**Off-Balance Sheet Arrangements**

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

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

Not required.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As required by Rule 13a-15(b) under the Exchange Act, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2022. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2022.

**Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control (as required by Rule 13a-15(b) under the Exchange Act) over the financial reporting during the three months ended September 30, 2022 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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**Inherent Limitations on Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Management recognizes that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Because of these inherent limitations, our disclosure and internal controls may not prevent or detect all instances of fraud, misstatements or other control issues. In addition, projections of any evaluation of the effectiveness of disclosure or internal controls to future periods are subject to risks, including, among others, that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

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**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings.**

From time to time, we may be involved in legal proceedings arising in the ordinary course of our business.

On September 20, 2022, the Company and two of its executive officers were named as defendants in a putative class action complaint filed in the U.S. District Court for the Central District of California (Case No. 2:22-cv-06764) on behalf of individuals who purchased or otherwise acquired the Company’s securities between March 22, 2019 and August 4, 2022. The Complaint asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 based on allegations that the Company and certain of its executive officers made false and/or misleading statements and/or failed to disclose laboratory testing, billing for laboratory testing, and remuneration received or provided that purportedly violated the Anti-Kickback Statute and Stark Law, and purportedly are the subject of the CID discussed in Note 8*, Debt, Commitments and Contingencies*, of our condensed consolidated financial statements included in this report. The Complaint seeks recovery of unspecified damages, interest, costs, attorneys’ fees and other relief.

The Company denies Plaintiffs’ allegations and intends to vigorously defend this matter. However, given the preliminary stage of the lawsuit, the uncertainty of litigation, and the legal standards that must be met for success on the merits, the Company cannot predict the outcome at this time or estimate a reasonably possible loss or range of loss that may result from this action.

Regardless of outcome, litigation can have an adverse impact on us due to defense and settlement costs, diversion of management resources, negative publicity and reputational harm, among other factors.

**Item 1A. Risk Factors.**

Except as set forth below and in the Company’s Quarterly Report on form 10-Q for the quarter ended June 30, 2022 filed with the SEC on August 4, 2022, there have been no material changes to the risk factors set forth in Part I, Item 1A of the 2021 Annual Report.

***Fulgent Pharma Holdings’ therapeutic candidates are in early stages of development and may fail or suffer delays that materially and adversely affect their future commercial viability.***

Fulgent Pharma Holdings is early in its development efforts, with only one therapeutic candidate having entered clinical trials (FID-007). Generally, before obtaining marketing approval for the commercial distribution of therapeutic candidates, Fulgent Pharma Holdings must conduct preclinical tests and clinical trials to demonstrate sufficient safety and efficacy of its therapeutic candidates in patients. Failure can occur at any time during the development or clinical trial process and Fulgent Pharma's future clinical trial results may not be successful. As a result, we may not have, or we may deem it imprudent to use, additional financial resources to continue development of a therapeutic candidate if there are issues that delay or prevent marketing approval of, or ability to commercialize, Fulgent Pharma's therapeutic candidates, including:

•

negative or inconclusive results from clinical trials, or the clinical trials of others for similar therapeutic candidates, leading to a decision or requirement to conduct additional preclinical testing or clinical trials or abandon a program;

•

therapeutic-related side effects experienced by participants in its clinical trials or by individuals using drugs or other therapeutic products similar to its therapeutic candidates;

•

delays in submitting investigational new drug applications, or INDs, or comparable foreign clinical trial applications or delays or failure in obtaining the necessary approvals from regulators to commence a clinical trial, or a suspension or termination of a clinical trial once commenced;

•

conditions imposed by the FDA or comparable foreign authorities regarding the scope or design of its clinical trials;

•

delays in enrolling research subjects or high drop-out rates of research subjects enrolled in clinical trials;

•

delays or difficulties in its clinical trials due to quarantines or other restrictions resulting from the COVID-19 pandemic or other public health emergencies;

•

unfavorable FDA or other regulatory agency inspection and review of a clinical trial site or the manufacturing location(s) for a therapeutic candidate;

•

inadequate supply or quality of therapeutic candidate clinical material or other raw materials or supplies necessary for the conduct of our clinical trials;

•

failure of its third-party contractors or investigators to comply with regulatory requirements or otherwise meet their contractual obligations in a timely manner, or at all;

•

delays and changes in regulatory requirements, policy and guidelines, including the imposition of additional regulatory oversight for human clinical testing generally or with respect to its technology in particular; or

•

varying interpretations of data by the FDA and similar foreign regulatory agencies.

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The therapeutic candidates Fulgent Pharma Holdings pursues or has pursued may not demonstrate the necessary safety or efficacy requirements for marketing approval. Further, a clinical trial may be suspended or terminated by the company, the institutional review boards, or IRBs, of the institutions in which such trials are being conducted, the Data Safety Monitoring Board, or DSMB, for such trial or by the FDA or other regulatory authorities due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using an investigational drug, changes in governmental regulations, administrative actions or lack of adequate funding to continue the clinical trial. Clinical holds may be placed prior to a clinical trial even beginning, in order to address potential safety and risk concerns of regulatory authorities, and partial or complete clinical holds can be imposed at any time during a trial. Furthermore, while Fulgent Pharma Holdings performs certain similar functions internally, we expect it to rely on contract research organizations, or CROs, and clinical trial sites to ensure proper and timely conduct of our clinical trials and while we expect it to enter into agreements governing those CROs’ committed activities we and Fulgent Pharma Holdings have limited influence over their actual performance.

If there are delays in the completion of, or termination of, any clinical trial of therapeutic candidates, the commercial prospects of those therapeutic candidates may be harmed. In addition, any delays in completing clinical trials will increase costs, slow down product development and approval processes, and jeopardize the ability to commence product sales and generate revenue. Any of these occurrences may materially and adversely affect our or Fulgent Pharma Holdings' business, financial condition, results of operations and prospects. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of marketing approval of therapeutic candidates.

***Any therapeutic product candidate that Fulgent Pharma Holdings may attempt to develop, manufacture or market in the United States will be subject to extensive regulation by the FDA, including regulations relating to development, preclinical testing, performance of clinical trials, manufacturing and post-approval commercialization. Preclinical testing, clinical trials and manufacturing, among other activities, will be subjected to an extensive review process before a new therapeutic product may be sold in the United States. Satisfaction of these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. The time required to obtain FDA approval, and any other required approvals for pharmaceutical products, including any accelerated approval, is unpredictable but typically requires years to several years and may never be obtained.***

Any product that Fulgent Pharma Holdings may wish to develop, manufacture or market in countries other than the United States will also be subject to numerous foreign regulatory requirements governing the conduct of clinical trials, manufacturing and marketing, pricing and third-party reimbursement among other things in such countries. The foreign marketing approval process includes all of the risks and uncertainties associated with FDA approval described above as well as risks attributable to the satisfaction of local regulations in such foreign jurisdictions.

In particular, obtaining marketing approval for pharmaceutical products requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the product candidate’s safety and efficacy. Securing marketing approval also typically requires the submission of information about the product manufacturing process, and in many cases the inspection of manufacturing, processing, and packaging facilities by the regulatory authorities. Our product candidates may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining marketing approval or prevent or limit commercial use, or there may be deficiencies in manufacturing compliance by Fulgent Pharma Holdings or by its contract manufacturing organizations that could result in the candidate not being approved. Moreover, neither we nor Fulgent Pharma Holdings have obtained marketing approval for any therapeutic candidate in any jurisdiction and it is possible that none of our existing therapeutic candidates or any therapeutic candidates we may seek to develop in the future will ever obtain marketing approval.

Therapeutic candidates could fail to receive, or could be delayed in receiving, marketing approval for many reasons, including any one or more of the following:

•

the FDA, European Medicines Agency, or EMA, or comparable foreign regulatory authorities may disagree with the design or implementation of clinical trials;

•

Fulgent Pharma Holdings may be unable to demonstrate to the satisfaction of the FDA, EMA or comparable foreign regulatory authorities that a product candidate is safe and effective for its proposed indication(s) for use;

•

the results of clinical trials may not meet the level of statistical significance required by the FDA, EMA or comparable foreign regulatory authorities for marketing approval;

•

Fulgent Pharma Holdings may be unable to demonstrate that a product candidate’s clinical and other benefits outweigh its safety risks;

•

the FDA, EMA or comparable foreign regulatory authorities may disagree with our interpretation of data from preclinical studies or clinical trials;

•

the data collected from clinical trials of product candidates may not be sufficient to support the submission of an application to obtain marketing approval in the United States or elsewhere;

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•

upon review of clinical trial sites and data, the FDA or comparable foreign regulatory authorities may find record keeping or the record keeping of clinical trial sites to be inadequate or may identify other deficiencies related to the trials;

•

the manufacturing processes or facilities of third-party manufacturers with which we or Fulgent Pharma Holdings contract for clinical and commercial supplies may fail to meet the requirements of the FDA, EMA or comparable foreign regulatory authorities; or

•

the medical standard of care or the approval policies or regulations of the FDA, EMA or comparable foreign regulatory authorities may significantly change in a manner that renders our clinical data insufficient for approval.

It is possible that none of the therapeutic candidates we or Fulgent Pharma Holdings may develop will obtain the marketing approvals necessary for us or our collaborators to sell the products either in the United States or any other country. Furthermore, approval by the FDA of a therapeutic product does not assure approval by regulatory authorities outside the United States or vice versa. Even if approval for a therapeutic product is obtained, such approval may be subject to limitations on the indicated uses or appropriate patient population that could result in a significantly reduced potential market size for the product.

***Fulgent Pharma Holdings expects to utilize the FDA’s Section 505(b)(2) pathway for most of its product candidates developed using its nano-drug delivery platform technology, and if that pathway is not available, the development of such product candidates will likely take significantly longer, cost significantly more and entail significantly greater complexity and risk than currently anticipated, and, in any case, may not be successful.***

Fulgent Pharma Holdings intends to develop and seek approval for its product candidates developed using its nano-drug delivery platform technology, including FID-007 and other candidates it may develop, pursuant to the FDA’s 505(b)(2) pathway. If the FDA determines that it may not use this regulatory pathway, then it would need to seek regulatory approval via a “full” or “stand-alone” new drug application, or NDA, under Section 505(b)(1) of the Federal Food, Drug, and Cosmetic Act, or FDCA. This would require Fulgent Pharma Holdings to conduct additional clinical trials, provide additional safety and efficacy data and other information, and meet additional standards for regulatory approval, including possibly nonclinical data. If this were to occur, the time and financial resources required to obtain FDA approval, as well as the development complexity and risk associated with these programs, would likely substantially increase, which could have a material adverse effect on our business and financial condition.

The Drug Price Competition and Patent Term Restoration Act of 1984, informally known as the Hatch-Waxman Act, added Section 505(b)(2) to the FDCA. Section 505(b)(2) permits the filing of an NDA where at least some of the information required for approval comes from studies and information that were not conducted by or for the applicant and for which the applicant has not obtained a right of reference. Section 505(b)(2), if applicable to Fulgent Pharma Holdings under the FDCA, would allow an NDA it submits to the FDA to rely in part on data in the public domain or the FDA’s prior conclusions regarding the safety and effectiveness of approved compounds, which could expedite the development program for FID-007, its lead product candidate.

Notwithstanding the approval of an increasing number of products by the FDA under Section 505(b)(2) over the last few years, certain brand-name pharmaceutical companies and others have objected to the FDA’s interpretation of Section 505(b)(2). If the FDA’s interpretation of Section 505(b)(2) is successfully challenged, or Congress were to amend the statute to alter the currently available regulatory pathway, the FDA may change its 505(b)(2) policies and practices, which could delay or even prevent the FDA from approving any NDA Fulgent Pharma Holdings submits under Section 505(b)(2). In addition, the pharmaceutical industry is highly competitive, and Section 505(b)(2) NDAs are subject to special requirements designed to protect the patent rights of sponsors of previously approved drugs referenced in a Section 505(b)(2) NDA. Even if Fulgent Pharma Holdings is able to utilize the Section 505(b)(2) regulatory pathway for one or more of its candidates, there is no guarantee this would ultimately lead to faster product development or earlier approval.

Moreover, any delay resulting from Fulgent Pharma Holdings’ inability to pursue the FDA's 505(b)(2) pathway could result in new competitive products reaching the market more quickly than its product candidates, which may have a material adverse impact on its competitive position and prospects. Even if Fulgent Pharma Holdings is allowed to pursue the FDA's 505(b)(2) pathway, we cannot assure you that its product candidates will receive the requisite approvals for commercialization.

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

On November 7, 2022, we completed the Pharma Merger pursuant to which the Company paid an aggregate of approximately $100 million in exchange for all of the outstanding equity interests of Fulgent Pharma Holdings, comprised of approximately $43.3 million in cash and approximately $30.7 million in shares of our common stock, or the Stock Consideration. The Stock Consideration (or 786,987 shares of common stock) was issued in reliance upon an exemption from registration afforded by Section 4(a)(2) promulgated under the Securities Act of 1933, as amended.

**Use of Proceeds from Registered Securities**

To date, we have used $43.9 million of the net proceeds from sales of our common stock, of which, $4.5 million was used for contributions to FF Gene Biotech prior to the FF Gene Biotech acquisition and $39.4 million was used to fund the Company’s operations. All other net proceeds from sales of our common stock are invested in investment-grade and interest-bearing securities, such as corporate bonds, municipal bonds, and U.S. government and U.S. agency debt securities. There has been no material change in the planned use of proceeds from the sales of our common stock from that described in the Prospectus.

**Information on Share Repurchases**

The number of shares of common stock repurchased by the Company during the nine months ended September 30, 2022 and the average price paid per share are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Period** |  | **(a) Total Number of Shares Purchased** | |  |  | **(b) Average Price Paid Per Share (1)** | |  |  | **(c) Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs** | |  |  | **(d) Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs** | |  |
| May 2022 (5/1/2022 - 5/31/2022) |  |  | 30,000 |  |  | $ | 49.56 |  |  |  | 30,000 |  |  | $ | 248,515,000 |  |
| June 2022 (6/1/2022 - 6/30/2022) |  |  | 185,000 |  |  | $ | 48.97 |  |  |  | 185,000 |  |  | $ | 239,429,000 |  |
| August 2022 (8/1/2022 - 8/31/2022) |  |  | 247,000 |  |  | $ | 47.68 |  |  |  | 247,000 |  |  | $ | 227,657,000 |  |
| September 2022 (9/1/2022 - 9/30/2022) |  |  | 533,000 |  |  | $ | 43.04 |  |  |  | 533,000 |  |  | $ | 204,752,000 |  |
| Total |  |  | 995,000 |  |  |  | |  |  |  | 995,000 |  |  |  | |  |

(1) Includes commissions for the shares repurchased under the stock repurchase program.

**Item 5. Other Information**

***Committee Composition***

On November 1, 2022, the board of directors of the Company appointed Dr. Michael Nohaile as the chair of the audit committee, and reconstituted its committees as set indicated in the chart below:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| **Director** |  | **Audit** |  | **Compensation** |  | **Nominating & Governance** |
| Linda Marsh |  | X |  | Chair |  | X |
| Michael Nohaile |  | Chair |  | X |  | X |

***Fulgent Pharma Acquisition***

As described in Note 17, *Subsequent Events*, of our condensed consolidated financial statements included in this report (which is hereby incorporated into this item by reference), on November 7, 2022, we completed the acquisition of Fulgent Pharma Holdings. The Pharma Merger Agreement contained representations, warranties and covenants by the parties customary for a transaction of this nature. Breaches of representations and warranties are subject to customary indemnification provisions.

A special committee comprised of independent members of Fulgent Genetics’ board of directors was established to review this transaction. In consultation with its independent financial and legal advisors, the special committee recommended the board of directors approve the Fulgent Pharma acquisition. The special committee was advised by First Principles Advisory Group and, Cooley

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LLP. Fulgent Genetics was represented in the transaction by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., and Procopio, Cory, Hargreaves & Savitch LLP acted as legal counsel to Fulgent Pharma.

The descriptions of the Pharma Merger, the Pharma Merger Agreement and the assumed restricted stock unit agreements are quailed in their entirety by the full text of the Form of Notice of Restricted Stock Unit Award and Restricted Stock Unit Agreement under the Fulgent Pharma Holdings, Inc. 2022 Omnibus Incentive Plan and Pharma Merger Agreement attached to this Quarterly Report as Exhibits 10.2 and 10.3, respectively.

**Item 6. Exhibits.**

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

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**EXHIBIT INDEX**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |
|  |  |  | **Incorporated by Reference** | | | | |
| **Exhibit No.** | **Exhibit Title** | **Filed with this Form 10-Q** | **Form** |  | **Form No.** |  | **Date Filed** |
|  |  |  |  |  |  |  |  |
| 3.1 | [Certificate of Incorporation of the registrant, dated May 13, 2016.](https://www.sec.gov/Archives/edgar/data/1674930/000119312516700733/d360404dex31.htm) |  | 10-Q |  | 001-37894 |  | 8/14/2017 |
|  |  |  |  |  |  |  |  |
| 3.1.1 | [Certificate of Amendment to Certificate of Incorporation of the registrant, dated August 2, 2016.](https://www.sec.gov/Archives/edgar/data/1674930/000119312516700733/d360404dex311.htm) |  | 10-Q |  | 001-37894 |  | 8/14/2017 |
|  |  |  |  |  |  |  |  |
| 3.1.2 | [Certificate of Amendment to Certificate of Incorporation of the registrant, dated May 17, 2017.](https://www.sec.gov/Archives/edgar/data/1674930/000156459017017670/flgt-ex312_342.htm) |  | 10-Q |  | 001-37894 |  | 8/14/2017 |
|  |  |  |  |  |  |  |  |
| 3.2 | [Bylaws of the registrant.](https://www.sec.gov/Archives/edgar/data/1674930/000119312516700733/d360404dex32.htm) |  | S-1/A |  | 333-213469 |  | 9/26/2016 |
|  |  |  |  |  |  |  |  |
| 10.1# | [Amended and Restated Non-Employee Director Compensation Policy, dated as of August 1, 2022.](flgt-ex10_1.htm) | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 10.2# | [Form of Notice of Restricted Stock Unit Award and Restricted Stock Unit Agreement under the Fulgent Pharma Holdings, Inc. 2022 Omnibus Incentive Plan](flgt-ex10_2.htm) | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 10.3^ | [Agreement and Plan of Merger, by and among Fulgent Genetics, FG Merger Sub, Inc., Fulgent Pharma Holdings, Inc. and solely for purposes of Section 2.4, Section 5.5, Article VI, Section 7.8 and Section 7.14, those company stockholders set forth on the signature page thereto, dated November 7, 2022](flgt-ex10_3.htm) | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 31.1 | [Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](flgt-ex31_1.htm) | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 31.2 | [Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](flgt-ex31_2.htm) | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 32.1\* | [Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](flgt-ex32_1.htm) | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 101.INS | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | X |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) | X |  |  |  |  |  |

\* Furnished herewith.

^ Certain exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to furnish supplementally a copy of any omitted exhibit or schedule upon request by the SEC.

# Management Compensation Plan or Arrangement.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
|  |  | **FULGENT GENETICS, INC.** | |
|  |  |  |  |
| Date: November 7, 2022 |  | By: | /s/ Ming Hsieh |
|  |  |  | Ming Hsieh |
|  |  |  | Chief Executive Officer  *(principal executive officer)* |
|  |  |  |  |
| Date: November 7, 2022 |  | By: | /s/ Paul Kim |
|  |  |  | Paul Kim |
|  |  |  | Chief Financial Officer  *(principal financial and accounting officer)* |

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