

**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, 2020

OR

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

Commission File Number: 001-37369

HTG Molecular Diagnostics, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

86-0912294
(I.R.S. Employer
Identification No.)

3430 E. Global Loop
Tucson, AZ
(Address of principal executive offices)

85706
(Zip Code)

Registrant's telephone number, including area code: (877) 289-2615

N/A

(Former name, former address and former fiscal year, if changed since last report)

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, \$0.001 par value per share	HTGM	The Nasdaq Stock Market LLC

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 6, 2020, the registrant had 71,096,029 shares of common stock, \$0.001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited).

HTG Molecular Diagnostics, Inc.
Condensed Consolidated Balance Sheets

	September 30, 2020	December 31, 2019
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,884,468	\$ 7,619,748
Short-term investments available-for-sale, at fair value	11,632,160	25,410,222
Restricted cash	—	3,270,247
Accounts receivable	1,370,201	3,164,176
Inventory, net of allowance of \$27,770 at September 30, 2020 and \$39,403 at December 31, 2019	1,538,553	1,269,667
Prepaid expenses and other	946,979	633,522
Total current assets	34,372,361	41,367,582
Operating lease right-of-use assets	746,185	1,209,145
Property and equipment, net	1,526,698	2,240,133
Other non-current assets	64,861	302,409
Total assets	\$ 36,710,105	\$ 45,119,269
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 875,236	\$ 1,662,583
Accrued liabilities	1,386,825	1,870,296
Contract liabilities - current	348,274	426,014
NuvoGen obligation - current	645,949	1,152,233
Current portion of long-term debt, net	2,266,884	2,987,667
Operating lease liabilities - current	436,663	758,932
Other current liabilities	26,620	41,134
Total current liabilities	5,986,451	8,898,859
NuvoGen obligation - non-current, net of discount	4,455,968	4,498,777
Long-term debt, net of current portion and discount and debt issuance costs	9,446,985	6,871,545
Operating lease liabilities - non-current	390,233	636,340
Other non-current liabilities	229,114	244,114
Total liabilities	20,508,751	21,149,635
Commitments and Contingencies (Note 15)		
Stockholders' equity:		
Series A convertible preferred stock, \$0.001 par value; 23,770 shares authorized at September 30, 2020 and no shares authorized at December 31, 2019; 23,770 shares issued and outstanding at September 30, 2020 and no shares issued and outstanding at December 31, 2019	24	—
Common stock, \$0.001 par value; 200,000,000 shares authorized at September 30, 2020 and December 31, 2019, 71,078,958 shares issued and outstanding at September 30, 2020 and 58,090,233 shares issued and outstanding at December 31, 2019	71,079	58,090
Additional paid-in-capital	203,021,404	194,234,151
Accumulated other comprehensive income (loss)	6,727	(4,964)
Accumulated deficit	(186,897,880)	(170,317,643)
Total stockholders' equity	16,201,354	23,969,634
Total liabilities and stockholders' equity	\$ 36,710,105	\$ 45,119,269

See notes to the unaudited condensed consolidated financial statements

HTG Molecular Diagnostics, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue:				
Product and product-related services	\$ 1,701,068	\$ 4,311,043	\$ 5,417,731	\$ 11,397,916
Collaborative development services	76,030	1,093,750	548,135	3,006,022
Total revenue	1,777,098	5,404,793	5,965,866	14,403,938
Operating expenses:				
Cost of product and product-related services revenue	940,892	2,939,007	2,931,026	7,492,905
Selling, general and administrative	4,752,321	4,516,341	13,683,069	13,657,917
Research and development	1,255,416	2,570,355	4,914,467	7,898,742
Total operating expenses	6,948,629	10,025,703	21,528,562	29,049,564
Operating loss	(5,171,531)	(4,620,910)	(15,562,696)	(14,645,626)
Other income (expense):				
Interest expense	(273,312)	(241,860)	(749,401)	(714,623)
Interest income	34,636	118,860	244,534	455,071
Other income	—	—	22,268	—
Loss on extinguishment of MidCap Credit Facility and QNAH Convertible Note	—	—	(522,394)	—
Total other expense	(238,676)	(123,000)	(1,004,993)	(259,552)
Net loss before income taxes	(5,410,207)	(4,743,910)	(16,567,689)	(14,905,178)
Benefit from (provision for) income taxes	(1,581)	3,678	(12,548)	(3,170)
Net loss	\$ (5,411,788)	\$ (4,740,232)	\$ (16,580,237)	\$ (14,908,348)
Net loss per share, basic and diluted	\$ (0.07)	\$ (0.15)	\$ (0.25)	\$ (0.50)
Shares used in computing net loss per share, basic and diluted	72,323,436	31,367,044	67,567,031	29,551,836

See notes to the unaudited condensed consolidated financial statements.

HTG Molecular Diagnostics, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended September		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net loss	\$ (5,411,788)	\$ (4,740,232)	\$ (16,580,237)	\$ (14,908,348)
Other comprehensive income (loss), net of tax effect:				
Unrealized gain (loss) on short-term investments	(17,501)	(1,864)	4,060	2,308
Foreign currency translation adjustment	1,225	37,575	7,631	34,820
Total other comprehensive income (loss)	(16,276)	35,711	11,691	37,128
Comprehensive loss	<u>\$ (5,428,064)</u>	<u>\$ (4,704,521)</u>	<u>\$ (16,568,546)</u>	<u>\$ (14,871,220)</u>

See notes to the unaudited condensed consolidated financial statements.

HTG Molecular Diagnostics, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

	September 30, 2020							
	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2020	-	\$ -	58,090,233	\$ 58,090	\$ 194,234,151	\$ (4,964)	\$ (170,317,643)	\$ 23,969,634
Stock-based compensation expense	—	—	—	—	415,256	—	—	415,256
Release of restricted stock awards	—	—	35,942	36	—	—	—	36
Net share settlement of restricted stock award	—	—	(11,266)	(11)	(7,041)	—	—	(7,052)
Employee stock purchase plan expense	—	—	—	—	5,379	—	—	5,379
Issuance of common stock from ATM offering, net of commissions and issuance costs of \$174,000	—	—	4,399,062	4,399	2,431,513	—	—	2,435,912
Issuance of Series A convertible preferred stock in private placement, net of issuance costs of \$37,075	10,170	10	—	—	562,945	—	—	562,955
Issuance of Series A convertible preferred stock in exchange for outstanding common stock	41,100	41	—	—	2,424,859	—	—	2,424,900
Cancellation of common stock received in exchange for Series A convertible preferred stock	—	—	(4,110,000)	(4,110)	(2,420,790)	—	—	(2,424,900)
Exercise of pre-funded warrants	—	—	3,176,762	3,177	28,591	—	—	31,768
Issuance of common stock in connection with LP Purchase Agreement	—	—	615,384	615	(615)	—	—	—
Transaction costs incurred in connection with LP Purchase Agreement	—	—	—	—	(96,000)	—	—	(96,000)
Net loss	—	—	—	—	—	—	(5,457,898)	(5,457,898)
Unrealized gain on short-term investments	—	—	—	—	—	47,697	—	47,697
Foreign currency translation adjustment	—	—	—	—	—	5,497	—	5,497
Balance at March 31, 2020	51,270	\$ 51	62,196,117	\$ 62,196	\$ 197,578,248	\$ 48,230	\$ (175,775,541)	\$ 21,913,184
Stock-based compensation expense	—	—	—	—	361,477	—	—	361,477
Release of restricted stock awards	—	—	23,751	24	—	—	—	24
Net share settlement of restricted stock award	—	—	(6,389)	(7)	(2,101)	—	—	(2,108)
Stock issued under employee stock purchase plan	—	—	45,490	45	30,467	—	—	30,512
Issuance of common stock from ATM offering, net of commissions costs of \$43,000	—	—	2,084,714	2,085	1,392,973	—	—	1,395,058
Conversion of Series A convertible preferred stock for common stock	(27,500)	(27)	2,750,000	2,750	(2,723)	—	—	—
Adjustment in connection with LP Purchase Agreement commitment fee and transaction costs	—	—	—	—	301,538	—	—	301,538
Issuance of common stock warrants in connection with SVB Term Loan	—	—	—	—	420,000	—	—	420,000
Net loss	—	—	—	—	—	—	(5,710,551)	(5,710,551)
Unrealized loss on short-term investments	—	—	—	—	—	(26,136)	—	(26,136)

Foreign currency translation adjustment	—	—	—	—	—	909	—	909
Balance at June 30, 2020	23,770	\$ 24	67,093,683	\$ 67,093	\$ 200,079,879	\$ 23,003	\$ (181,486,092)	\$ 18,683,907
Stock-based compensation expense	—	—	—	—	386,911	—	—	386,911
Release of restricted stock awards	—	—	38,126	38	—	—	—	38
Net share settlement of restricted stock award	—	—	(5,091)	(4)	(3,660)	—	—	(3,664)
Employee stock purchase plan expense	—	—	—	—	5,214	—	—	5,214
Issuance of common stock from ATM offering, net of commissions costs of \$79,000	—	—	3,952,240	3,952	2,553,060	—	—	2,557,012
Net loss	—	—	—	—	—	—	(5,411,788)	(5,411,788)
Unrealized loss on short-term investments	—	—	—	—	—	(17,501)	—	(17,501)
Foreign currency translation adjustment	—	—	—	—	—	1,225	—	1,225
Balance at September 30, 2020	<u>23,770</u>	<u>\$ 24</u>	<u>71,078,958</u>	<u>\$ 71,079</u>	<u>\$ 203,021,404</u>	<u>\$ 6,727</u>	<u>\$ (186,897,880)</u>	<u>\$ 16,201,354</u>

September 30, 2019

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2019	-	\$ -	28,585,449	\$ 28,585	\$ 172,086,909	\$ (3,453)	\$ (151,019,979)	\$ 21,092,062
Exercise of stock options	—	—	21,871	22	51,548	—	—	51,570
Stock-based compensation expense	—	—	—	—	241,233	—	—	241,233
Release of restricted stock awards	—	—	13,126	13	—	—	—	13
Net share settlement of restricted stock award	—	—	(3,813)	(4)	(9,681)	—	—	(9,685)
Employee stock purchase plan expense	—	—	—	—	16,794	—	—	16,794
Net loss	—	—	—	—	—	—	(5,370,846)	(5,370,846)
Unrealized gain on short-term investments	—	—	—	—	—	3,353	—	3,353
Foreign currency translation adjustment	—	—	—	—	—	6,439	—	6,439
Balance at March 31, 2019	-	\$ -	28,616,633	\$ 28,616	\$ 172,386,803	\$ 6,339	\$ (156,390,825)	\$ 16,030,933
Exercise of stock options	—	—	32,385	32	69,352	—	—	69,384
Stock-based compensation expense	—	—	—	—	287,317	—	—	287,317
Release of restricted stock awards	—	—	15,001	15	—	—	—	15
Net share settlement of restricted stock award	—	—	(4,461)	(4)	(11,148)	—	—	(11,152)
Stock issued under stock purchase plans	—	—	47,489	48	99,092	—	—	99,140
Net loss	—	—	—	—	—	—	(4,797,270)	(4,797,270)
Unrealized gain on short-term investments	—	—	—	—	—	819	—	819
Foreign currency translation adjustment	—	—	—	—	—	(9,194)	—	(9,194)
Balance at June 30, 2019	-	\$ -	28,707,047	\$ 28,707	\$ 172,831,416	\$ (2,036)	\$ (161,188,095)	\$ 11,669,992
Stock-based compensation expense	—	—	—	—	316,525	—	—	316,525
Release of restricted stock awards	—	—	30,001	30	—	—	—	30
Net share settlement of restricted stock award	—	—	(4,355)	(5)	(7,225)	—	—	(7,230)
Employee stock purchase plan expense	—	—	—	—	16,325	—	—	16,325
Issuance of common stock and warrants from the 2019 public and private offerings, net of issuance costs of \$1.7 million	—	—	29,298,537	29,299	20,796,084	—	—	20,825,383
Net loss	—	—	—	—	—	—	(4,740,232)	(4,740,232)
Unrealized loss on short-term investments	—	—	—	—	—	(1,864)	—	(1,864)
Foreign currency translation adjustment	—	—	—	—	—	37,575	—	37,575
Balance at September 30, 2019	-	\$ -	58,031,230	\$ 58,031	\$ 193,953,125	\$ 33,675	\$ (165,928,327)	\$ 28,116,504

See notes to the unaudited condensed consolidated financial statements.

HTG Molecular Diagnostics, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
Operating activities		
Net loss	\$ (16,580,237)	\$ (14,908,348)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,039,989	920,863
Accretion of discount on NuvoGen obligation	(9,771)	(10,273)
Provision for excess inventory	5,649	126,582
Write-off of Cowen ATM offering costs	—	108,883
Amortization of QNAH Convertible Note issuance costs	6,505	10,091
Amortization of MidCap Credit Facility discount and issuance costs	101,482	128,476
Amortization of SVB Term Loan discount and issuance costs	121,168	—
Stock-based compensation expense	1,163,742	845,133
Employee stock purchase plan expense	15,972	49,914
Non-cash operating lease expense	465,504	329,248
Accrued interest on available-for-sale securities investments	(101,996)	(231,272)
Issuance of common stock in connection with LP Purchase Agreement	205,538	—
Loss on extinguishment of Midcap Credit Facility and QNAH Convertible Note	522,394	—
Loss on abandonment and disposal of assets, net	77,498	—
Changes in operating assets and liabilities:		
Accounts receivable	1,793,975	1,079,317
Inventory	(255,718)	(11,715)
Prepaid expenses and other	457,504	(383,643)
Deferred offering costs	140,320	—
Accounts payable	(778,706)	928,454
Accrued liabilities	(474,521)	(1,526,835)
Contract liabilities	(74,700)	152,681
Operating lease liabilities	(583,828)	(446,403)
Net cash used in operating activities	<u>(12,742,237)</u>	<u>(12,838,847)</u>
Investing activities		
Purchase of property and equipment	(418,712)	(753,430)
Maturities of available-for-sale securities	25,450,000	30,800,000
Purchase of available-for-sale securities	(11,565,882)	(10,922,764)
Net cash provided by investing activities	<u>13,465,406</u>	<u>19,123,806</u>
Financing activities		
Proceeds from issuance of SVB Term Loan and common stock warrants	10,000,000	—
Payment of SVB Term Loan issuance costs	(115,193)	—
Payments for extinguishment of MidCap Credit Facility	(7,438,623)	—
Payments for extinguishment of QNAH Convertible Note	(3,000,000)	—
Proceeds from 2019 underwritten public and private offerings, net of underwriting discounts, commissions and costs of \$1.7 million	—	21,102,077
Proceeds from ATM Offering, net	6,387,982	—
Proceeds from PPP Loan	1,717,000	—
Proceeds from Series A convertible preferred stock in private placement	562,955	—
Payments on NuvoGen obligation	(539,323)	(1,003,634)
Proceeds from exercise of pre-funded warrants	31,768	—
Proceeds from shares purchased under stock purchase plans	25,133	82,345
Proceeds from exercise of stock options	—	120,954
Payments on financing leases	(32,553)	(34,928)
Taxes paid for net share settlement of restricted stock awards	(12,824)	(28,067)
Payment of deferred offering costs	—	(139,058)
Payments on Insurance Note	(324,301)	—
Net cash provided by financing activities	<u>7,262,021</u>	<u>20,099,689</u>
Effect of exchange rates on cash	9,283	29,838

Increase in cash, cash equivalents and restricted cash	7,994,473	26,414,486
Cash, cash equivalents and restricted cash at beginning of period	10,889,995	11,702,847
Cash, cash equivalents and restricted cash at end of period	<u>\$ 18,884,468</u>	<u>\$ 38,117,333</u>

Supplemental disclosure of noncash investing and financing activities

Issuance of Series A convertible preferred stock in exchange for outstanding common stock	\$ 2,424,900	\$ -
Issuance of Common stock in exchange for Series A convertible preferred stock	1,622,500	—
Adoption of ASC 842, Leases	—	694,352
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	21,078	1,005,085
Carrying value of demonstration units transferred from property and equipment to inventory	18,817	—
Fixed asset purchases payable and accrued at period end	—	21,381
Offering costs payable and accrued at period end	—	276,694

Supplemental cash flow information

Cash paid for interest	\$ 719,676	\$ 521,538
Cash paid for taxes	9,961	3,170

See notes to the unaudited condensed consolidated financial statements.

HTG Molecular Diagnostics, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Description of Business, Basis of Presentation and Principles of Consolidation

HTG Molecular Diagnostics, Inc. (the “Company”) is a provider of instruments, reagents and services for molecular profiling applications. The Company derives revenue from sales of its HTG EdgeSeq instrument system and integrated next-generation sequencing-based (“NGS-based”) HTG EdgeSeq assays, from services including sample processing and custom research use only (“RUO”) assay design and from collaborative development services.

The Company operates in one segment and its customers are located primarily in the United States and Europe. For the three and nine months ended September 30, 2020 19% and 31%, respectively, of the Company’s revenue was generated from sales originated by customers located outside of the United States, compared with 29% and 31% for the three and nine months ended September 30, 2019, respectively.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (“COVID-19”) originating in Wuhan, China and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic.

The full impact of the COVID-19 pandemic continues to evolve as of the date of this report and likewise the full impact of the pandemic on the Company’s financial condition, liquidity and future results of operations is uncertain. Management is actively monitoring the potential impact of the global situation on its financial condition, liquidity, operations, suppliers, industry and workforce. Given the daily evolution of the COVID-19 pandemic and the global responses to curb its spread, the Company is not able to fully estimate the effects of the COVID-19 pandemic on its results of operations, financial condition or liquidity.

The Company experienced a significant slowing of product and product-related services revenue generation beginning in March 2020 and believes this period of reduced revenue will continue through at least the remainder of 2020 due to disruptions to its customers’ businesses as a result of the pandemic. The extent of this impact varied from customer to customer depending upon how they have been directly or indirectly impacted by local stay-at-home orders and other social distancing measures, prioritization by those customers as the immediate impacts of the pandemic have passed, and the workforce and supplier impacts that each customer has experienced during the pandemic. The Company has experienced very limited delays in its development efforts as a result of stay-at-home orders despite its efforts to prioritize the safety of its employees during this pandemic. The Company believes the COVID-19 pandemic will continue to impact its productivity, supply chains, distribution networks and other areas of its operation as ongoing concerns regarding the pandemic continue to disrupt the Company’s business and the businesses of its vendors, partners and customers. Although the Company cannot estimate the length and gravity of the impact of the COVID-19 pandemic at this time, the COVID-19 pandemic is expected to have a continuing adverse effect on the Company’s results of operations, financial position and liquidity for at least the remainder of 2020.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted in response to the COVID-19 pandemic. On April 21, 2020, the Company received proceeds from a loan in the amount of \$1,717,000 from SVB, as lender, pursuant to the Paycheck Protection Program of the CARES Act (the “PPP loan”) (see Note 8). The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019 and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Company does not currently expect that these provisions will have a significant impact on its consolidated financial statements.

While there remains uncertainty as to the ultimate impact of the COVID-19 pandemic, the Company has considered the known impacts on its business as of the date of this report and has reflected any known or expected impacts in its accompanying condensed consolidated financial statements, including consideration of potential impairment risks to its long-lived assets, potential accounts receivable collection risks and potential impacts to its overall liquidity position.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and reflect the accounts of the Company as of September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial

statements. The accompanying condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the Company's financial position and the results of its operations and cash flows, as of and for the periods presented. The accompanying condensed consolidated balance sheet at December 31, 2019 has been derived from the audited consolidated financial statements at that date but does not include all of the information and disclosures required by U.S. GAAP for annual financial statements. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2019, included in the Company's Annual Report on Form 10-K filed with the SEC on March 25, 2020.

Going Concern and Liquidity

Management has assessed the Company's ability to continue as a going concern within one year of the filing of this Quarterly Report on Form 10-Q with the SEC. The accompanying interim unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of the assets and satisfaction of liabilities in the normal course of business. However, the Company has had recurring operating losses and negative operating cash flows since its inception and has an accumulated deficit of \$186.9 million as of September 30, 2020. As of September 30, 2020, the Company had working capital of \$28.4 million and long-term liabilities of \$14.5 million. The Company's liability balances consist primarily of its debt obligations, including an asset-secured Loan and Security Agreement with Silicon Valley Bank (the "SVB Term Loan"), the PPP Loan, and a commercial financing agreement extending the payment period related to its director and officer insurance policy (the "Insurance Note") (see Note 8), as well as an obligation to NuvoGen Research, LLC ("NuvoGen obligation") (see Note 10). While the Company believes that its existing resources will be sufficient to fund its planned operations and expenditures for at least the next 12 months from issuance of these condensed consolidated financial statements, potential changing circumstances, including COVID-19 uncertainties, may result in the depletion of its capital resources more rapidly than it currently anticipates. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The accompanying interim unaudited condensed consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

The Company will need to raise additional capital to fund its operations and service its long-term debt obligations until its revenue reaches a level sufficient to provide for self-sustaining cash flows. There can be no assurance that additional capital will be available on acceptable terms, or at all, or that the Company's revenue will reach a level sufficient to provide for self-sustaining cash flows. In addition, the Company must comply with a financial covenant requiring the Company to maintain a certain amount of unrestricted cash under its SVB Term Loan. If sufficient additional capital is not available as and when needed, the Company may have to delay, scale back or discontinue one or more product development programs, curtail its commercialization activities, significantly reduce expenses, sell assets (potentially at a discount to their fair value or carrying value), enter into relationships with third parties to develop or commercialize products or technologies that the Company otherwise would have sought to develop or commercialize independently, cease operations altogether, pursue a sale of the Company at a price that may result in a significant loss on investment for its stockholders, file for bankruptcy or seek other protection from creditors, or liquidate all assets. In addition, if the Company defaults under its term loan agreement, its lenders could foreclose on its assets.

Principles of Consolidation

The Company formed a French subsidiary, HTG Molecular Diagnostics France SARL ("HTG France"), in November 2018. The accompanying condensed consolidated financial statements include the accounts of the Company and this wholly-owned subsidiary after elimination of all intercompany transactions and balances as of September 30, 2020 and December 31, 2019.

Concentration Risks

Financial instruments that potentially subject the Company to credit risk consist principally of cash and cash equivalents, available-for-sale debt securities and uncollateralized accounts receivable. The Company maintains the majority of its cash balances in the form of cash deposits in bank checking and money market accounts in amounts in excess of federally insured limits. Management believes, based upon the quality of the financial institution, that the credit risk with regard to these deposits is not significant. The available-for-sale debt securities are comprised primarily of investments in U.S. Treasury and high-quality debt securities.

The Company sells its instrument, related consumables, sample processing services, custom RUO assay design and collaborative development services primarily to biopharmaceutical companies, academic institutions and molecular labs. The Company routinely assesses the financial strength of its customers and credit losses have been minimal to date.

The Company's top two customers accounted for 24% and 10% of the Company's total revenue for the three months ended September 30, 2020, compared with the Company's top two customers accounting for 39% and 20% of the Company's total revenue for the three months ended September 30, 2019. The Company's top two customers accounted for 16% and 10% of the Company's total revenue for the nine months ended September 30, 2020 compared with the Company's top three customers accounting for 23%, 22% and 21% for the nine months ended September 30, 2019.

The Company's top two customers accounted for 30% and 13% of the Company's accounts receivable and an additional two customers each accounted for 11% of the Company's accounts receivable as of September 30, 2020. Two customers accounted for approximately 29% and 25% of the Company's accounts receivable as of December 31, 2019.

The Company currently relies on a single supplier to produce a subcomponent used in its HTG EdgeSeq processors. A loss of this supplier could significantly delay the delivery of processors, which in turn could materially affect the Company's ability to generate revenue.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company's significant estimates include revenue recognition, stock-based compensation expense, bonus accrual, income tax valuation allowances and reserves, recovery of long-lived assets, inventory obsolescence and inventory valuation and valuation of accounts receivable and available-for-sale securities. Actual results could materially differ from those estimates, especially in light of the significant uncertainty that remains as to the full impact of the COVID-19 pandemic on the Company's operations, as well as those of its workforce, supply chains, distribution networks and those of its customers.

Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies from those previously disclosed in the Company's Annual Report on Form 10-K, filed with the SEC on March 25, 2020.

Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the accompanying condensed consolidated statements of cash flows.

	September 30,	
	2020	2019
Cash and cash equivalents	\$ 18,884,468	\$ 34,847,086
Restricted cash - non-current	—	3,270,247
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	<u>\$ 18,884,468</u>	<u>\$ 38,117,333</u>

In October 2017, the Company received \$3.0 million in gross proceeds from, and issued a subordinated convertible promissory note (the "QNAH Convertible Note") in that principal amount to, QIAGEN North American Holdings, Inc. ("QNAH"). Amounts included in restricted cash represented those required to be set aside in escrow under the terms of the MidCap Term Loan to collateralize the payment that was due upon maturity of the QNAH Convertible Note (see Note 8). The balance of restricted cash was released to the Company on June 25, 2020 in conjunction with the extinguishment of the QNAH Convertible Note with proceeds from the SVB Term Loan (see Note 8).

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximate fair value due to their liquidity and short-term nature. Investments that are classified as available-for-sale are recorded at fair value, which is determined using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. The carrying value of the SVB Term Loan (see Note 8) is estimated to approximate its fair value as the interest rate approximates the market rate for debt with similar terms and risk characteristics.

The NuvoGen obligation relates to an asset purchase transaction with a then-common stockholder of the Company. As of September 30, 2020, the estimated aggregate fair value of the NuvoGen obligation is approximately \$4.5 million, determined using a Monte Carlo simulation with key assumptions including future revenue, volatility, discount and risk-free rates. The estimated fair value of the NuvoGen obligation represents a Level 3 measurement.

Leases

Effective January 1, 2019, the Company accounts for its leases under Financial Accounting Standards Board (“FASB”), Accounting Standards Codification (“ASC”) 842. Under this guidance, arrangements meeting the definition of a lease are classified as operating or financing leases and are recorded on the condensed consolidated balance sheets as both right-of-use assets and lease liabilities, calculated by discounting fixed lease payments over the lease term at the rate implicit in the lease or the Company’s incremental borrowing rate. Lease liabilities are increased by interest and reduced by payments each period, and right-of-use assets are amortized over the lease term. For operating leases, interest on the lease liability and the amortization of the right-of-use asset result in straight-line rent expense over the lease term. For financing leases, interest on the lease liability and the amortization of the right-of-use asset result in front-loaded expense over the lease term. Variable lease expenses are recorded to rent expense as incurred.

In calculating the right-of-use asset and lease liability, the Company elects to combine lease and non-lease components for all classes of assets currently under lease, including facilities, copiers and computer equipment. The Company excludes short-term leases having initial terms of 12 months or less from an accounting policy election and recognizes rent on short-term leases on a straight-line basis over the lease term for these leases.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued Accounting Standards Update (“ASU”) No. 2018-13, *Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which makes a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement against or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. The new standard was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. The Company’s adoption of this standard on January 1, 2020 did not have a material impact on its condensed consolidated financial statements or related footnote disclosures.

In November 2018, the FASB issued ASU No. 2018-18, which amended ASC 808, *Collaborative Arrangements* and ASC 606, *Revenue from Contracts with Customers* (“ASU 2018-18”), to require that transactions in collaborative arrangements be accounted for under ASC 606 if the counterparty is a customer for a good or service (or bundle of goods and services) that is a distinct unit of account. The amendments also preclude entities from presenting consideration from transactions with a collaborator that is not a customer together with revenue recognized from contracts with customers. The new standard was effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted. The Company’s adoption of this standard on January 1, 2020 did not have an effect on its condensed consolidated financial statements as it did not change the way collaborative development services and the related costs of these services are reported.

New Accounting Pronouncements

The following are new FASB ASUs that had not been adopted by the Company as of September 30, 2020:

In August 2020, the FASB issued ASU No. 2020-06, *Debt – Debt with Conversion and other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity* (“ASU 2020-06”), which simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and also simplifies the diluted earnings per share calculation in certain areas. The standard is effective for public business entities, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years and interim periods within those fiscal years, beginning after December 15, 2021. For all other entities, the standard will be effective for fiscal years beginning after December 15, 2023. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, and adoption must be as of the beginning of the Company’s annual fiscal year. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (“ASU 2020-04”), which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted

accounting principles to transactions affected by reference rate reform if certain criteria are met. These transactions include: contract modifications, hedging relationships, and sale or transfer of debt securities classified as held-to-maturity. Entities may apply the provisions of the new standard as of the beginning of the reporting period when the election is made (i.e. as early as the first quarter 2020). Unlike other topics, the provisions of this update are only available until December 31, 2022, when the reference rate replacement activity is expected to have completed. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures and has yet to elect an adoption date.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”), which is intended to simplify various aspects of the accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This standard is effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses*, which was subsequently amended by ASU 2018-19, ASU 2019-10 and ASU 2020-02, requires the measurement of expected credit losses for financial instruments carried at amortized cost held at the reporting date based on historical experience, current conditions and reasonable forecasts. The updated guidance also amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security’s amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. With the issuance of ASU 2019-10 in November 2019, the standard is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2022. The Company will continue to assess the possible impact of this standard, but currently does not expect the adoption of this standard will have a significant impact on its consolidated financial statements, given the high credit quality of the obligors to its available-for-sale debt securities and its history of minimal bad debt expense relating to trade accounts receivable.

Note 3. Inventory

Inventory, net of allowance, consisted of the following as of the dates indicated:

	September 30, 2020	December 31, 2019
Raw materials	\$ 1,130,443	\$ 872,947
Work in process	165,447	151,351
Finished goods	270,433	284,772
Total gross inventory	1,566,323	1,309,070
Less inventory allowance	(27,770)	(39,403)
	<u>\$ 1,538,553</u>	<u>\$ 1,269,667</u>

For the three and nine months ended September 30, 2020, the Company recorded adjustments to provision for excess inventory of \$10,530 and \$12,202, respectively. For the three and nine months ended September 30, 2019, the Company recorded adjustments to provision for excess inventory of \$81,582 and \$126,582, respectively. Adjustments in these periods to the allowance for estimated shrinkage, obsolescence and excess inventory have been included in cost of revenue in the accompanying condensed consolidated statements of operations.

HTG EdgeSeq instruments at customer locations under evaluation agreements are included in finished goods inventory. Finished goods inventory under evaluation as of September 30, 2020 was \$104,950 compared to \$79,338 as of December 31, 2019.

Note 4. Fair Value Instruments

Financial assets and liabilities measured at fair value are classified in their entirety in the fair value hierarchy based on the lowest level input significant to the fair value measurement. The following table classifies the Company's financial assets and liabilities measured at fair value on a recurring basis at September 30, 2020 and December 31, 2019 in the fair value hierarchy:

	September 30, 2020			Total
	Level 1	Level 2	Level 3	
Asset included in:				
Cash and cash equivalents				
Money market securities	\$ 18,803,851	\$ —	\$ —	\$ 18,803,851
Investments available-for-sale at fair value				
U.S. Treasury securities	3,238,088	—	—	3,238,088
Corporate debt securities	—	8,394,072	—	8,394,072
Total	\$ 22,041,939	\$ 8,394,072	\$ —	\$ 30,436,011

	December 31, 2019			Total
	Level 1	Level 2	Level 3	
Asset included in:				
Cash and cash equivalents				
Money market securities	\$ 7,217,096	\$ —	\$ —	\$ 7,217,096
Investments available-for-sale at fair value				
U.S. Treasury securities	5,961,983	—	—	5,961,983
Corporate debt securities	—	19,448,239	—	19,448,239
Total	\$ 13,179,079	\$ 19,448,239	\$ —	\$ 32,627,318

There are no other financial instruments subject to fair value measurement on a recurring basis. Transfers to and from Levels 1, 2 and 3 are recognized at the end of the reporting period. There were no transfers between levels for the three and nine months ended September 30, 2020 or for the year ended December 31, 2019.

Level 1 instruments include investments in money market funds and U.S. Treasuries. These instruments are valued using quoted market prices for identical unrestricted instruments in active markets. The Company defines active markets for debt instruments based on both the average daily trading volume and the number of days with trading activity. Level 2 instruments include corporate debt securities. Valuations of Level 2 instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Fair values of these assets are based on prices provided by independent market participants that are based on observable inputs using market-based valuation techniques. These valuation models and analytical tools use market pricing or similar instruments that are both objective and publicly available, including matrix pricing or reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids and/or offers. The Company did not adjust any of the valuations received from these third parties with respect to any of its Level 1 or 2 securities for the nine-month period ended September 30, 2020 or the year-ended December 31, 2019 and did not have any Level 3 financial assets or liabilities during either of these periods.

Note 5. Available-for-Sale Securities

The Company's portfolio of available-for-sale securities consists of U.S. Treasuries and high credit quality corporate debt securities. The following is a summary of the Company's available-for-sale securities at September 30, 2020 and December 31, 2019:

	September 30, 2020			Fair Value (Net Carrying Amount)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	\$ 3,234,037	\$ 4,051	\$ —	\$ 3,238,088
Corporate debt securities	8,394,072	—	—	8,394,072
Total available-for-sale securities	\$ 11,628,109	\$ 4,051	\$ —	\$ 11,632,160

	December 31, 2019			Fair Value (Net Carrying Amount)
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	\$ 5,962,224	\$ 394	\$ (635)	\$ 5,961,983
Corporate debt securities	19,448,239	—	—	19,448,239
Total available-for-sale securities	\$ 25,410,463	\$ 394	\$ (635)	\$ 25,410,222

There were no gross unrealized losses relating to the Company's available-for-sale securities investments as of September 30, 2020. The net adjustment to unrealized holding gains (losses) on available-for-sale securities, net of tax in other comprehensive income totaled \$(17,501) and \$4,060 for the three and nine months ended September 30, 2020, respectively and (\$1,864) and \$2,308 for the three and nine months ended September 30, 2019, respectively.

Contractual maturities of debt investment securities at September 30, 2020 are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Under 1 Year	1 to 2 Years	Total
	U.S. Treasury securities	\$ 3,238,088	\$ —
Corporate debt securities	8,394,072	—	8,394,072
Total available-for-sale securities	\$ 11,632,160	\$ —	\$ 11,632,160

For debt securities, the Company determines whether it intends to sell or if it is more likely than not that it will be required to sell impaired securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and securities portfolio management. For all impaired debt securities for which there was no intent or expected requirement to sell, the evaluation considers all available evidence to assess whether it is likely the amortized cost value will be recovered. The Company conducts a regular assessment of its debt securities with unrealized losses to determine whether securities have other-than-temporary impairment considering, among other factors, the nature of the securities, credit rating or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, market conditions and whether the Company intends to sell or it is more likely than not that the Company will be required to sell the debt securities. As the Company did not have any unrealized losses as of September 30, 2020, there were no other-than-temporary impairments of its available-for-sale securities.

Note 6. Property and Equipment

Property and equipment, net, consists of the following as of the dates indicated:

	September 30, 2020	December 31, 2019
Furniture & fixtures	\$ 1,082,717	\$ 1,089,371
Leasehold improvements	1,943,534	1,987,997
Equipment used in manufacturing	2,225,122	2,305,340
Equipment used in research & development	2,473,854	2,134,019
Equipment used in the field	208,005	182,762
Software	418,251	374,812
Property and equipment	8,351,483	8,074,301
Less: accumulated depreciation and amortization	(6,824,785)	(5,834,168)
	<u>\$ 1,526,698</u>	<u>\$ 2,240,133</u>

Depreciation and leasehold improvement amortization expense was approximately \$0.3 million and \$1.0 million for the three and nine months ended September 30, 2020, respectively, and approximately \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2019, respectively.

Note 7. Accrued Liabilities

Accrued liabilities consist of the following as of the dates indicated:

	September 30, 2020	December 31, 2019
Accrued employee bonuses	\$ 331,642	\$ 900,740
Payroll and employee benefit accruals	643,730	469,530
Accrued professional fees	102,551	43,850
Accrued interest	55,691	245,350
Accrued rebate	60,694	—
Other accrued liabilities	192,517	210,826
	<u>\$ 1,386,825</u>	<u>\$ 1,870,296</u>

Note 8. Debt Obligations

Current portion of long-term debt, net, consisted of the following as of the dates indicated:

	September 30, 2020	December 31, 2019
Convertible note, net of debt issuance costs	\$ —	\$ 2,987,667
SVB Term Loan payable, net of discount and debt issuance costs	1,000,000	—
PPP Loan	855,990	—
Insurance Note Payable	410,894	—
	<u>\$ 2,266,884</u>	<u>\$ 2,987,667</u>

Long-term debt, net of current portion and discount and debt issuance costs, consisted of the following as of the dates indicated:

	September 30, 2020	December 31, 2019
MidCap Term Loan payable, net of discount and debt issuance costs	\$ —	\$ 6,871,545
SVB Term Loan payable, net of discount and debt issuance costs	8,585,975	—
PPP Loan	861,010	—
	<u>\$ 9,446,985</u>	<u>\$ 6,871,545</u>

MidCap Credit Facility

On March 26, 2018 (the “MidCap Closing Date”), the Company entered into a Credit and Security Agreement (Term Loan) (the “MidCap Term Loan”) and a Credit and Security Agreement (Revolving Loan) (the “MidCap Revolving Loan”) and together with the MidCap Term Loan, the “MidCap Credit Facility”) with MidCap Financial Trust, as agent. MidCap Financial Trust subsequently assigned its rights and obligations as agent to MidCap Funding IV Trust.

On February 26, 2020 (the “Amendment Effective Date”), the Company entered into (i) an amendment to the MidCap Term Loan (the “MidCap Term Loan Amendment”), and (ii) an amendment to the MidCap Revolving Loan (the “MidCap Revolving Loan Amendment,” and together with the MidCap Term Loan Amendment, the “Amendments”).

The MidCap Term Loan Amendment extended the interest only payments on the term loan advance by an additional 11 months, with principal on the term loan advance payable in 25 equal monthly installments beginning March 1, 2021 until paid in full on March 1, 2023. The MidCap Term Loan Amendment also provided that if the Company achieved a stated revenue milestone for the 12-month period ending on December 31, 2020, the interest-only period would be further extended by an additional four months, with principal on the term loan advance then payable in 21 equal monthly installments beginning July 1, 2021.

QNAH Convertible Note Agreement

In October 2017, the Company issued a subordinated convertible promissory note to QNAH in the principal amount of \$3.0 million against receipt of cash proceeds equal to such principal amount. On June 25, 2020 in connection with the closing of the SVB Term Loan, the Company repaid in full the QNAH Convertible Note, in the aggregate amount of approximately \$3.2 million.

Extinguishment of MidCap Credit Facility and QNAH Convertible Note upon SVB Term Loan Closing

On June 25, 2020, the Company repaid all principal and interest amounts outstanding under the MidCap Credit Facility in an aggregate amount equal to approximately \$7.5 million, including collateral agent legal fees and prepayment fees. The repayment was funded with net proceeds from the SVB Term Loan (see description of the SVB Term Loan below). As a result of the repayment, the Company recorded a loss on extinguishment of the MidCap Credit Facility and the QNAH Convertible Note of approximately \$0.5 million, including remaining unamortized discounts of \$0.3 million and prepayment and other MidCap Credit Facility and QNAH Convertible Note lender fees and issuance costs in other expense in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2020. All obligations under the MidCap Credit Facility and the QNAH Convertible Note were terminated upon extinguishment of the MidCap Credit Facility.

SVB Term Loan

On June 24, 2020 (the “Closing Date”), the Company entered into a Loan and Security Agreement (the “Loan Agreement”), by and among the Company and Silicon Valley Bank (“SVB”), as lender, which provides a secured term loan in the principal amount of \$10.0 million.

The proceeds from the SVB Term Loan were fully funded on the June 25, 2020. The proceeds from the SVB Term Loan, together with cash on hand, were used to repay in full all outstanding amounts and fees due under the MidCap Credit Facility and the QNAH Convertible Note.

The SVB Term Loan bears interest at a floating rate equal to the greater of 2.50% above the Prime Rate (as defined in the Loan Agreement) and 5.75%. Interest on the SVB Term Loan is due and payable monthly in arrears. The SVB Term Loan has interest-only payments through June 30, 2021. The interest only period may be extended for six months upon the achievement of an equity milestone as fully defined in the Loan Agreement. The ultimate interest-only period will be followed by equal monthly payments of principal and interest through the maturity date of December 1, 2023.

Prepayments of the SVB Term Loan, in whole or in part, will be subject to early termination fees in an amount equal to 3.0% of principal prepaid if prepayment occurs on or prior to the first anniversary of the Closing Date, 2.0% of principal prepaid if prepayment occurs after the first anniversary of the Closing Date but on or prior to the second anniversary of the Closing Date, and 1.0% of principal prepaid if prepayment occurs after the second anniversary of the Closing Date and prior to the maturity date.

Upon termination of the Loan Agreement, the Company is required to pay a final fee equal to 8.00% of the principal amount of the SVB Term Loan.

The Company's obligations under the Loan Agreement are secured by a security interest in substantially all of its assets, excluding intellectual property (which is subject to a negative pledge). Additionally, the Company's future subsidiaries, if any, may be required to become co-borrowers or guarantors under the Loan Agreement.

The Loan Agreement contains customary affirmative covenants and customary negative covenants limiting the Company's ability and the ability of the Company's subsidiaries, if any, to, among other things, dispose of assets, undergo a change in control, merge or consolidate, make acquisitions, incur debt, incur liens, pay dividends, repurchase stock and make investments, in each case subject to certain exceptions. The Company must also comply with a financial covenant requiring the Company to maintain unrestricted cash at an account with SVB of not less than the greater of (i) \$12.5 million and (ii) an amount equal to six times the amount of the Company's average monthly Cash Burn (as defined in the Loan Agreement) over the trailing three months.

The Loan Agreement also contains customary events of default relating to, among other things, payment defaults, breaches of covenants, a material adverse change, delisting of the Company's common stock, bankruptcy and insolvency, cross defaults with certain material indebtedness and certain material contracts, judgments, and inaccuracies of representations and warranties. Upon an event of default, SVB may declare all or a portion of the Company's outstanding obligations to be immediately due and payable and exercise other rights and remedies provided for under the agreement. During the existence of an event of default, interest on the obligations could be increased by 5.0%.

In connection with the Loan Agreement, the Company granted to SVB a warrant to purchase up to 643,413 shares of the Company's common stock at a purchase price of \$0.7771 per share. The warrant will expire on June 24, 2030 and may be exercised for cash or at the election of the holder on a cashless, net exercise basis. The fair value of the warrant on the date of issuance was approximately \$0.4 million, determined using the Black-Scholes option-pricing model, and was recorded as a discount to the SVB Term Loan.

The Company recognized approximately \$1.2 million of debt discount associated with the SVB Term Loan, resulting from fees and debt issuance costs, inclusive of the fair value of warrants issued, in long-term debt, net in the accompanying condensed consolidated balance sheets as of September 30, 2020. Amortization of the debt discount associated with the SVB Term Loan was \$0.1 million for both the three and nine months ended September 30, 2020 and was included in interest expense in the accompanying condensed consolidated statements of operations.

The remaining principal repayments due under the SVB Term Loan as of September 30, 2020 are as follows for each fiscal year:

2020	\$	-
2021		2,000,000
2022		4,000,000
2023		4,000,000
Total SVB Term Loan payments		<u>10,000,000</u>
Less discount and deferred financing costs		(1,214,025)
Plus final fee premium		800,000
Total SVB Term Loan, net	\$	<u>9,585,975</u>

Paycheck Protection Program Loan

On April 21, 2020, the Company received proceeds from a loan in the amount of \$1,717,000 from SVB, as lender, pursuant to the Paycheck Protection Program ("PPP") of the CARES Act. The PPP Loan is evidenced by a promissory note (the "Note"), which contains customary events of default relating to, among other things, payment defaults and breaches of representations, warranties or terms of the PPP Loan documents.

The PPP Loan matures on April 21, 2022 and bears interest at an annual rate of 1%. Beginning on March 21, 2021, the Company is required to make 14 equal monthly payments of principal and interest. The PPP Loan may be prepaid by the Company at any time prior to maturity with no prepayment penalties. The proceeds from the PPP Loan may only be used for payroll costs (including benefits), rent and utility obligations, and interest on certain of the Company's other debt obligations.

All or a portion of the PPP Loan may be forgiven by the U.S. Small Business Administration ("SBA") upon application and documentation by the Company of expenditures in accordance with the SBA requirements. Under the CARES Act and PPP Flexibility Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the 24-week period beginning on the date of loan approval. For purposes of the PPP, payroll costs exclude

compensation of an individual employee in excess of \$100,000, prorated annually. Not more than 40% of the forgiven amount may be for non-payroll costs. Forgiveness is reduced if a Company's full-time headcount declines, or if salaries and wages for employees with salaries of \$100,000 or less annually are reduced by more than 25% during the measurement period, unless certain safe harbors are satisfied. In the event the PPP Loan, or any portion thereof, is forgiven pursuant to the PPP, the amount forgiven is applied to outstanding principal and interest. The Company applied for full PPP Loan forgiveness in October 2020. However, there can be no assurance given that the Company will obtain forgiveness of the PPP Loan in whole or in part. In order to apply for the PPP Loan, the Company certified that, among other things, the current economic uncertainty made the PPP Loan request necessary to support its ongoing operations. In addition, PPP loans under the CARES Act may be subject to certain rules, regulations and Standard Operating Procedures ("SOPs") applicable to the SBA's Section 7(a) Loan Program, which includes PPP loans under the CARES Act. The interpretation and applicability of these rules, regulations and SOPs is unclear, as some of them have not been referenced in the CARES Act itself or in the guidance and interpretations issued by the SBA to date. If it is determined that the Company was not eligible to receive the PPP Loan, or that the Company has not adequately complied with the rules, regulations and SOPs applicable to the SBA's Section 7(a) Loan Program, the Company could be subject to penalties and could be required to repay the PPP Loan in its entirety. If the Company were required to repay the PPP Loan in its entirety, the Company's liquidity would be reduced.

Insurance Note

On April 27, 2020, the Company entered into a commercial financing agreement to extend the payment period related to its director and officer insurance policy. The Insurance Note required a down payment to be made upon signing the agreement equal to approximately \$0.2 million. The unpaid premium balance of approximately \$0.7 million was financed at an annual rate of 3.61%. The Insurance Note is being repaid in nine equal monthly payments of principal and interest beginning on June 6, 2020. The Insurance Note contains customary events of default relating to, among other things, payment defaults and breaches of representations, warranties or terms of the Insurance Note documents. The Insurance Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties.

Note 9. Revenue from Contracts with Customers

Product and Product-related Services Revenue

The Company had product and product-related services revenue consisting of revenue from the sale of instruments and consumables and the use of the HTG EdgeSeq proprietary technology to process samples and design custom RUO assays for the three and nine months ended September 30, 2020 and 2019 as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Product revenue:				
Instruments	\$ 71,742	\$ 414,491	\$ 563,396	\$ 1,100,606
Consumables	764,605	1,058,386	2,091,848	2,218,674
Total product revenue	836,347	1,472,877	2,655,244	3,319,280
Product-related services revenue:				
Custom RUO assay design	238,502	2,129,251	1,210,968	3,978,428
RUO sample processing	626,219	708,915	1,551,519	4,100,208
Total product-related services revenue	864,721	2,838,166	2,762,487	8,078,636
Total product and product-related services revenue	\$ 1,701,068	\$ 4,311,043	\$ 5,417,731	\$ 11,397,916

Because the Company's agreements for product and product-related services revenue have an expected duration of one year or less, the Company has elected the practical expedient in ASC 606-10-50-14(a) to not disclose information about its remaining performance obligations.

Sale of Instruments and Consumables

The delivery of each instrument and related installation and calibration are considered to be a single performance obligation, as the HTG EdgeSeq instrument must be professionally installed and calibrated prior to use. Instrument product revenue is generally recognized upon installation and calibration of the instrument by field service engineers, which represents the point at which the customer has the ability to use the instrument and has accepted the asset. Installation generally occurs within one month of instrument shipment.

The delivery of each consumable is a separate performance obligation. Consumables revenue is recognized upon transfer of control, which represents the point when the customer has legal title and the significant risks of ownership of the asset. The Company's standard terms and conditions provide that no right of return exists for instruments and consumables, unless replacement is necessary due to delivery of defective or damaged product. Customer payment terms vary but are typically between 30 and 90 days of revenue being earned from shipment or delivery, as applicable.

Shipping and handling fees charged to the Company's customers for instruments and consumables shipped are included in the accompanying condensed consolidated statements of operations as part of product and product-related services revenue. Shipping and handling costs for sold products shipped to the Company's customers are included in the accompanying condensed consolidated statements of operations as part of cost of product and product-related services revenue.

For sales of consumables in the United States, standard delivery terms are FOB shipping point, unless otherwise specified in the customer contract, reflecting transfer of control to the customer upon shipment. Standard delivery terms for sales to customers outside of the United States are FOB delivery point, unless otherwise specified in the customer contract. The Company has elected the practical expedient to account for shipping and handling as activities to fulfill the promise to transfer the consumables. The Company uses a most likely amount approach to estimate variable consideration arising from its rebate program. The Company's variable consideration from its rebate program is constrained.

The Company provides instruments to certain customers under reagent rental agreements. Under these agreements, the Company installs an instrument in the customer's facility without a fee and the customer agrees to purchase consumable products at a stated price over the term of the agreement; in some instances, the agreements do not contain a minimum purchase requirement. Terms range from several months to multiple years and may automatically renew in several month or multiple year increments unless either party notifies the other in advance that the agreement will not renew. The Company measures progress toward complete satisfaction of this performance obligation to provide the instrument and deliver the consumables using an output method based on the number of consumables delivered in relation to the total consumables to be provided under the reagent rental agreement. This is considered to be representative of the delivery of outputs under the arrangement and the best measure of progress because the customer benefits from the instrument only in conjunction with the consumables. The Company expects to recover the cost of the instrument under the agreement through the fees charged for consumables, to the extent sold, over the term of the agreement.

In reagent rental agreements, the Company retains title to the instrument and title is transferred to the customer at no additional charge at the conclusion of the initial arrangement. The cost of the instrument is amortized on a straight-line basis over the term of the arrangement, unless there is no minimum consumable product purchase, in which case the instrument would be expensed as cost of product and product-related services revenue upon installation. Cost to maintain the instrument while title remains with the Company is charged to selling, general and administrative expense as incurred.

RUO Sample Processing

The Company also provides sample preparation and processing services and molecular profiling of retrospective cohorts for its customers through its VERI/O laboratory, whereby the customer provides samples to be processed using HTG EdgeSeq technology specified in the order. Customers are charged a per sample fee for sample processing services which is recognized as revenue upon delivery of a data file to the customer showing the results of testing and completing delivery of the agreed upon service. This is when the customer can use and benefit from the results of testing and the Company has the present right to payment.

Custom RUO Assay Design and Related Agreements

The Company enters into custom RUO assay design agreements that may generate up-front fees and subsequent payments that might be earned upon completion of design process phases. The Company measures progress toward complete satisfaction of its performance obligation to perform custom RUO assay design using an output method based on the costs incurred to date compared with total expected costs, as this is representative of the delivery of outputs under the arrangements and the best measure of progress. However, because in most instances the assay design fees are contingent upon completion of each phase of the design project and the decision of the customer to proceed to the next phase, the amount to be included in the transaction price and recognized as revenue is limited to that which the customer is contractually obligated to pay upon completion of that phase, which is when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Changes in estimates of total expected costs are accounted for prospectively as a change in estimate. From period to period, custom RUO assay design service revenue can fluctuate substantially based on the completion of design-related phases.

The Company did not recognize any custom RUO assay design revenue from performance obligations that were satisfied in previous periods for either the three and nine months ended September 30, 2020, compared with \$0 and \$41,137 for the three and nine months ended September 30, 2019, respectively.

Collaborative Development Services Revenue

The Company enters into collaborative development services agreements with biopharmaceutical companies for the development of NGS-based companion diagnostic assays in support of and in conjunction with, biopharmaceutical companies' drug development programs. These collaborative development services agreements may generate upfront fees, and in some cases subsequent milestone payments that may be earned upon completion of certain product development milestones or activities. The Company follows ASC 606, Revenue from Contracts with Customers and ASC 808, Collaborative Arrangements to determine the appropriate recognition of revenue under our collaborative research, development and commercialization agreements that contain multiple elements. For the three and nine months ended September 30, 2020 and 2019, collaborative development services revenue was generated through statements of work entered into under the Governing Agreement with QML as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Collaborative development services	\$ 76,030	\$ 1,093,750	\$ 548,135	\$ 3,006,022

Master Assay Development, Commercialization and Manufacturing Agreement

In November 2016, the Company entered into the Governing Agreement, which created the framework for QML and the Company to combine their technological and commercial strengths to offer biopharmaceutical companies a complete NGS-based solution for the development, manufacture and commercialization of companion diagnostic assays. Under the Governing Agreement, the parties jointly sought companion diagnostic programs with biopharmaceutical companies, with QML entering into sponsor project agreements with interested biopharmaceutical companies for specified projects, and QML and the Company entering into statements of work which set forth the rights and obligations of QML and the Company with respect to each project. In November 2019, the Company elected to terminate the Governing Agreement with QML as a result of QML's material breach of the Governing Agreement, including QML's failure to develop an in vitro diagnostic ("IVD") version of its GeneReader sequencing platform for development of PDP Assays. The Company's termination of the Governing Agreement did not terminate active statements of work under the Governing Agreement.

The Company has determined that SOW Two and SOW Three (each defined below) are collaborative arrangements and that QML meets the definition of a customer under ASC 606. Additionally, each SOW is a separate contract with a single performance obligation to provide development services. Under each SOW, QML pays the Company a monthly fee for development work performed by the Company and its subcontractors (collectively, the "Monthly Fee"). The Monthly Fee is based on the employee and materials costs incurred during the month, which is subject to significant variability from period to period and unknown until the costs are incurred. Therefore, the Monthly Fee, which is based on use of hours and costs as a measure of progress, is included in the transaction price and recognized as revenue over time when the costs are incurred, and the Monthly Fee is billed to QML. It is at this time that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Company and QML also share any net profits resulting from performance of the development work as determined pursuant to the Governing Agreement. Such profit-sharing payment(s) are deemed to be variable consideration using the expected value method and are included in the transaction price upon completion of the respective SOW deliverables, acceptance of corresponding deliverables, and the mutual agreement by QML and the Company on the calculation of net profit, which is when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Because each SOW has an expected duration of one year or less, the Company has elected the practical expedient in ASC 606-10-50-14(a) to not disclose information about its remaining performance obligations for each SOW.

Statement of Work No. Two

In October 2017, the Company and QML entered into the second statement of work under the Governing Agreement ("SOW Two"), which was made effective as of June 2, 2017 ("Onset Date"). The Company and QML amended SOW Two twice in August 2018 and two additional times, in September 2018 and in February 2019. SOW Two addresses development activities conducted by the Company and QML since the Onset Date and those expected to be further conducted by the parties in connection with what is expected to be a multi-stage project leading to the potential development and commercialization of an NGS-based companion diagnostic assay in support of one or more therapeutic development and commercialization programs for a third-party biopharmaceutical company.

The initial-phase investigational-use-only ("IUO") development activities under SOW Two and the first three amendments related to next phases, which include the use of the IUO assay developed in the initial-phase in a retrospective clinical trial and in additional disease indications, have been completed. The fourth amendment of SOW Two, effective as of February 5, 2019, contemplates the use of the IUO assay in multiple biopharmaceutical company clinical trials and additional development activities which could potentially

be included in a future companion diagnostic regulatory submission. As of September 30, 2020, development activities agreed upon in the fourth amendment are ongoing and expected to be completed in the fourth quarter of 2020.

Revenue of approximately \$0.1 million and \$0.5 million inclusive of SOW Two Monthly Fees and approximately \$0.1 million and \$0.1 million of SOW Two profit-sharing payments has been included in collaborative development services revenue in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2020, respectively. Revenue of approximately \$0.6 million and \$2.2 million, inclusive of SOW Two Monthly Fees and approximately \$0.3 million and \$0.4 million of SOW Two profit-sharing payments has been included in collaborative development services revenue in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2019, respectively. Accounts receivable relating to SOW Two of approximately \$0.1 million and \$0.2 million remained in the accompanying condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively. Costs relating to development activities conducted by the Company pursuant to SOW Two of less than \$0.1 million and approximately \$0.4 million have been included in research and development expense in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2020, respectively, compared with approximately \$0.2 million and \$1.3 million for the three and nine months ended September 30, 2019, respectively.

Statement of Work No. Three

In January 2018, the Company and QML entered into a third statement of work under the Governing Agreement (“SOW Three”) and amended SOW Three in September 2018. SOW Three relates to development activities for an NGS-based clinical-trial assay (“SOW Three Project”) in connection with a sponsor project agreement between QML and a pharmaceutical company (“Pharma Three”). Initial assay development activities under SOW Three have been completed, and the first amendment to SOW Three provides for the development of an IUO assay, subsequent retrospective testing of clinical trial samples, design verification and, subject to satisfactory achievement of relevant performance and regulatory milestones, regulatory submissions in the United States and European Union necessary for the commercialization of a companion diagnostic for a corresponding Pharma Three drug. As of September 30, 2020, the Company and QML are on hold pending customer decision as to whether to proceed with next phase contract activities.

There was no revenue recognized, or development costs incurred relating to SOW Three for the three and nine months ended September 30, 2020. Revenue of approximately \$0.5 million and \$0.8 million reflecting SOW Three Monthly Fees has been included in collaborative development services revenue in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2019, respectively. Accounts receivable relating to SOW Three of \$0 and approximately \$0.8 million remained in the condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively. Costs relating to development activities conducted by the Company pursuant to SOW Three of approximately \$0.3 million and \$0.6 million have been included in research and development expense in the condensed consolidated statements of operations for the three and nine months ended September 30, 2019, respectively.

Contract Assets

Contract assets represent the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer, for which rights to payment are conditional upon something other than the passage of time. Contract assets of approximately \$42,000 and \$0 were included in prepaid expenses and other in the accompanying condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively.

Contract Liabilities

The Company receives up-front payments from customers for custom RUO assay design services, and occasionally for sample processing services. Payments for instrument extended warranty contracts are made in advance as are payments for certain agreed-upon capital purchases required for collaborative development service projects. The Company recognizes such up-front payments as a contract liability. The contract liability is subsequently reduced at the point in time that the data file is delivered for sample processing services or as the Company satisfies its performance obligations over time for RUO assay design, collaborative development and extended warranty services. Contract liabilities of approximately \$0.5 million and \$0.6 million were included in contract liabilities – current and other non-current liabilities in the accompanying condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019, respectively. The Company expects approximately \$0.3 million of deferred revenue to be realized within the next 12 months and the remaining \$0.2 million to be realized prior to December 31, 2022.

Changes in the Company's contract liability were as follows as of the dates indicated:

	Product Revenue	Custom RUO Assay Design	Sample Processing	Total Contract Liability
Balance at January 1, 2020	\$ 95,148	\$ 66,216	\$ 438,090	\$ 599,454
Deferral of revenue	335,265	459,385	77,104	871,754
Recognition of deferred revenue	(325,181)	(525,601)	(95,670)	(946,452)
Balance at September 30, 2020	<u>\$ 105,232</u>	<u>\$ —</u>	<u>\$ 419,524</u>	<u>\$ 524,756</u>
	Product Revenue	Custom RUO Assay Design	Sample Processing	Total Contract Liability
Balance at January 1, 2019	\$ 116,547	\$ 50,000	\$ 244,400	\$ 410,947
Deferral of revenue	126,425	671,885	463,814	1,262,124
Recognition of deferred revenue	(172,610)	(707,641)	(229,192)	(1,109,443)
Balance at September 30, 2019	<u>\$ 70,362</u>	<u>\$ 14,244</u>	<u>\$ 479,022</u>	<u>\$ 563,628</u>

Note 10. Other Agreements

NuvoGen Obligation

Pursuant to the Company's asset purchase agreement with NuvoGen Research, LLC ("NuvoGen"), as amended, the Company is obligated to pay NuvoGen the greater of \$400,000 or 6% of annual revenue until the obligation is paid in full. In addition to fixed quarterly payments of \$100,000, revenue-based payments of less than \$0.1 million and approximately \$0.2 million were payable as of September 30, 2020 and December 31, 2019, respectively. There have been no significant modifications to the terms and conditions of the Company's NuvoGen obligation since the disclosures made in Part II, Item 8, Consolidated Financial Statements included in the Company's Annual Report on Form 10-K, filed with the SEC on March 25, 2020.

Remaining minimum payments to be made in 2020 include \$6,626 of revenue-based payments payable as of September 30, 2020 and the fourth quarter 2020 minimum payment. Minimum payments to be made in 2021 include an estimate of additional revenue-based payments to be made in the first, second and third quarters of 2021 relating to revenue generated in the fourth quarter of 2020 and in the first and second quarters of 2021, estimated using revenue generated in the same quarters in 2019 and 2020. Minimum payments for the remaining periods include only the minimum quarterly payments to be made in each period. Actual payments could vary from what is shown in the table, to the extent that 6% of the Company's annual revenue in 2021 and beyond exceeds \$400,000.

The remaining minimum payments to be made to NuvoGen as of September 30, 2020 are as follows for each fiscal year:

2020	\$ 106,626
2021	639,323
2022	400,000
2023	400,000
2024	400,000
2025 and beyond	3,073,428
Total NuvoGen obligation payments	<u>5,019,377</u>
Plus interest accretion	82,540
Total NuvoGen obligation, net	<u>\$ 5,101,917</u>

The Company has recorded the obligation at the estimated present value of the future payments using a discount rate of 2.5%, the Company's estimate of its effective borrowing rate for similar obligations. The unamortized debt discount was \$(82,540) and \$(92,311) at September 30, 2020 and December 31, 2019, respectively. Discount accreted during the three and nine months ended September 30, 2020 was \$(3,115) and \$(9,771), respectively, compared with \$(3,790) and \$(10,273) for the three and nine months ended September 30, 2019, respectively.

Other Agreements

There have been no significant modifications or financial events relating to the development agreement entered into by the Company with Illumina, Inc. since the disclosures made in Part II, Item 8, Consolidated Financial Statements included in the Company's Annual Report on Form 10-K, filed with the SEC on March 25, 2020.

Note 11. Net Loss Per Share

Basic loss per common share is computed by dividing net loss allocable to common stockholders by the weighted average number of shares of common stock or common stock equivalents outstanding. Diluted loss per common share is computed similar to basic loss per common share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue common stock were exercised or converted into common stock.

In connection with the Securities Purchase Agreement (see Note 13), the Company issued and sold an aggregate of 5,411,687 pre-funded warrants exercisable for an aggregate of 5,411,687 shares of common stock. The total exercise price of the pre-funded warrants is \$0.65 per share, \$0.64 of which was pre-funded and paid to the Company upon issuance of the pre-funded warrants. The remaining exercise price of the pre-funded warrants is \$0.01 per share. In March 2020, 3,176,762 of the pre-funded warrants were exercised for proceeds of \$31,768. The remaining pre-funded warrants are immediately exercisable and do not expire. As the remaining shares underlying the pre-funded warrants are issuable for nominal consideration of \$0.01 per share, 2,234,925 in common shares underlying the unexercised pre-funded warrants were considered outstanding for purposes of the calculation of loss per share, as of the three and nine months ended September 30, 2020.

The following outstanding options, warrants, restricted stock units and debt conversion option were excluded from the computation of diluted net loss per share for the periods presented because their effect would have been anti-dilutive:

	Nine Months Ended September 30,	
	2020	2019
Options to purchase common stock	7,485,489	2,940,990
Common stock warrants	880,328	236,915
Restricted stock units	204,051	247,079
QNAH convertible note	-	794,665

Note 12. Warrants

In connection with certain of its redeemable convertible preferred stock issuances, convertible debt financings and other financing arrangements, the Company has issued warrants for shares of its common stock and various issues of its redeemable convertible preferred stock, which have since been converted to common stock warrants.

In September 2019, in connection with the Securities Purchase Agreement (see Note 13), the Company issued and sold an aggregate of 5,411,687 pre-funded warrants exercisable for an aggregate of 5,411,687 shares of common stock. The total exercise price of the pre-funded warrants is \$0.65 per share, \$0.64 of which was pre-funded and paid to the Company upon issuance of the pre-funded warrants. The remaining exercise price of the pre-funded warrants is \$0.01 per share. In March 2020, 3,176,762 of the pre-funded warrants were exercised for proceeds of \$31,768. As of September 30, 2020, the remaining pre-funded warrants remain outstanding and are exercisable by the holders at any time.

In connection with the SVB Term Loan Agreement (see Note 8), the Company granted to SVB a warrant to purchase up to 643,413 shares of the Company's common stock at a purchase price of \$0.7771 per share. The warrant will expire on June 24, 2030 and may be exercised for cash or at the election of the holder on a cashless, net exercise basis.

The following table shows the common stock warrants outstanding as of September 30, 2020:

Warrant Issuance Date	Shares of Common Stock Underlying Warrants	Exercise Price/Share	Expiration Date
August 2014	28,713	\$ 23.51	2024
December 2014	144,772	14.00	2022
March 2016	45,307	2.76	2026
March 2018	18,123	7.73	2028
September 2019	2,234,925	0.01	N/A
June 2020	643,413	0.7771	2030

Note 13. Stockholders' Deficit

Equity Offerings

Securities Purchase Agreement

In September 2019, concurrently with the closing of an underwritten public offering, the Company entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with certain institutional accredited investors (the "Purchasers"), pursuant to which the Company sold to the Purchasers, in a private placement transaction, an aggregate of 5,411,687 pre-funded warrants to purchase up to an aggregate of 5,411,687 shares of our common stock ("Warrant Shares"), at a price of \$0.64 per warrant (which \$0.64 price relates to the pre-funded portion of the total \$0.65 exercise price per share). Each pre-funded warrant has a remaining exercise price of \$0.01 per share and became immediately exercisable upon issuance, subject to certain beneficial ownership limitations.

The exercise price of the pre-funded warrants will be subject to adjustment in the event of any stock dividends and splits, recapitalization, reorganization or similar transaction, as described in the pre-funded warrants. The pre-funded warrants are exercisable on a "cashless" basis in certain circumstances.

The pre-funded warrants and the Warrant Shares were not registered under the Securities Act and were offered pursuant to the exemption provided in Section 4(a)(2) under the Securities Act and Rule 506(b) promulgated thereunder. Pursuant to the Securities Purchase Agreement, the Company filed a registration statement on Form S-3 on October 11, 2019 to register the resale of the Warrant Shares, which registration statement was declared effective by the SEC on November 26, 2019. Each Purchaser was an "accredited investor" as defined in Rule 501(a) under the Securities Act.

Cantor Fitzgerald & Co. (the "Placement Agent") acted as the sole placement agent in connection with the private placement of the warrants. Pursuant to a Placement Agency Agreement between the Company and the Placement Agent, the Company agreed to pay the Placement Agent a cash fee equal to 6% of the gross proceeds from the sale of the pre-funded warrants, and to provide reimbursement for certain out-of-pocket expenses. Upon closing, the Company received approximately \$3.1 million in net proceeds from the sale of the pre-funded warrants in the private placement, which did not include proceeds subsequently received or that may be received upon exercise of the pre-funded warrants, after deducting the Placement Agent fee and other expenses. In March 2020, 3,176,762 of the pre-funded warrants were exercised for additional proceeds of \$31,768.

ATM Offering

In November 2019, the Company entered into a Controlled Equity Offering Sales Agreement (the "Cantor Sales Agreement") with Cantor as the sales agent, pursuant to which the Company may offer and sell, from time to time, through Cantor, shares of its common stock, par value \$0.001 per share, by any method deemed to be an "at the market offering" as defined in Rule 415(a)(4) under the Securities Act (the "ATM Offering"). The shares are offered and sold pursuant to the Company's shelf registration statement on Form S-3 (File No. 333-229045).

During the nine months ended September 30, 2020, the Company sold 10,436,016 shares of common stock under the ATM Offering at then-market prices for total gross proceeds of approximately \$6.7 million. After deferred offering costs included as non-current assets in the condensed balance sheets as of December 31, 2019 of approximately \$0.1 million and paying sales commissions owed in connection with the ATM Offering of approximately \$0.2 million, the Company's aggregate net proceeds for the nine months ended September 30, 2020 were approximately \$6.4 million.

Exchange and Private Placement

On February 25, 2020, the Company entered into an Exchange and Purchase Agreement (the "Exchange Agreement") with certain accredited investors (the "Investors") pursuant to which the Company agreed to (i) issue to the Investors an aggregate of 41,100 shares of its newly designated Series A Convertible Preferred Stock, par value \$0.001 per share ("Series A Preferred"), in exchange for the Investors surrendering to the Company for cancellation an aggregate of 4,110,000 shares of its common stock (the "Exchange") and (ii) sell and issue to the Investors an aggregate of 10,170 shares of Series A Preferred for an aggregate purchase price of \$600,030, or \$59.00 per share (the "Private Placement").

The common stock acquired in the Exchange was immediately retired.

Each share of Series A Preferred is convertible into 100 shares of the Company's common stock, subject to proportional adjustment and beneficial ownership limitations. In June 2020, certain of the Investors elected to convert 27,500 shares of Series A Preferred to common stock in the aggregate, resulting in the issuance of 2,750,000 shares of the Company's common stock. The remaining 23,770

Series A Preferred shares remain outstanding as of September 30, 2020. In the event of the Company's liquidation, dissolution or winding up, holders of Series A Preferred will participate pari passu with any distribution of proceeds to holders of the Company's common stock. Holders of Series A Preferred are entitled to receive dividends on shares of Series A Preferred equal (on an as converted to common stock basis) to and in the same form as dividends actually paid on the Company's common stock. Shares of Series A Preferred generally have no voting rights, except as required by law.

LP Purchase Agreement

On March 24, 2020, the Company entered into a purchase agreement ("LP Purchase Agreement") with Lincoln Park Capital Fund, LLC ("Lincoln Park"), pursuant to which, upon the terms and subject to the conditions and limitations set forth therein, the Company has the right to sell to Lincoln Park up to \$20.0 million of shares of its common stock ("Purchase Shares") from time to time over the 36-month term of the LP Purchase Agreement. The purchase price of the Purchase Shares will be based on recent closing prices of the Company's common stock at the time of sale. The Company issued Lincoln Park an aggregate of 615,384 shares of its common stock as consideration for their purchase commitment pursuant to the LP Purchase Agreement. The Company did not receive cash proceeds from the issuance of such shares. The value of this commitment consideration, as well as related transaction costs of approximately \$0.1 million have been included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations for the nine months ended September 30, 2020. No such expense was included in the accompanying condensed financial statements for the three and nine months ended September 30, 2019. No shares have been sold under the LP Purchase Agreement as of September 30, 2020.

Stock-based Compensation

Equity Incentive Plans

In May 2015, 940,112 shares were reserved for issuance under the Company's 2014 Equity Incentive Plan (the "2014 Plan"). There were no shares of the Company's stock available for issuance under the 2014 Plan as of December 31, 2019, other than those reserved for inducement awards, as outlined below. On January 1, 2020, an additional 2,323,609 shares were registered for issuance under the 2014 Plan pursuant to an evergreen provision contained in the 2014 Plan.

In May 2019, 200,000 shares were reserved for issuance under the 2014 Plan pursuant to an amendment approved by the Company's Board of Directors pursuant to Rule 5635(c)(4) of the Nasdaq Listing Rules, to be used exclusively for the grant of awards to individuals who were not previously employees or non-employee directors of the Company, as inducement material to the individuals' entering into employment with the Company ("Inducement Awards"). No new Inducement Awards may be granted under the 2014 Plan.

In August 2020, the Company's stockholders, upon the recommendation of the Company's Board of Directors, approved the 2020 Equity Incentive Plan (the "2020 Plan") as a successor to and continuation of the 2014 Plan. Upon approval of the 2020 Plan, 11,170,288 shares, including 1,028,292 remaining shares reserved for issuance under the 2014 Plan (excluding shares available for the granting of inducement awards under the 2014 Plan's inducement share pool), were reserved for issuance under the 2020 Plan. No new awards may be granted under the 2014 Plan. The 2020 Plan does not contain an evergreen provision.

The Company's Board of Directors determines the grant date for all awards granted under the 2020 Plan. The option exercise price of stock options granted is generally equal to the closing price of the Company's common stock on the date of grant or on the employee's hire date for new hire grants. All stock options granted have a ten-year term. The vesting period of stock options and RSUs is established by the Board of Directors but typically ranges between one and four years.

A summary of the Company's stock option activity for the nine months ended September 30, 2020 is as follows:

	Number of Shares	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance at December 31, 2019	2,904,898	\$ 2.37	8.0	\$ 781
Granted	5,766,000	0.52		
Exercised	-	-		\$ -
Forfeited	(1,102,897)	1.01		
Expired/Cancelled	(82,512)	3.29		
Balance at September 30, 2020	<u>7,485,489</u>	<u>\$ 1.13</u>	8.9	\$ 404
Exercisable at September 30, 2020	<u>2,489,579</u>	<u>\$ 1.98</u>	7.4	\$ 101

As of September 30, 2020, total unrecognized compensation cost related stock option awards was approximately \$2.7 million, which is expected to be recognized over approximately 2.44 years.

The following table summarizes restricted stock unit (“RSU”) award activity for the nine months ended September 30, 2020:

	Number of Shares	Weighted- Average Grant Date Fair Value Per Share
Balance at December 31, 2019	223,745	\$ 2.91
Granted	105,000	0.52
Released	(97,819)	2.43
Forfeited	(26,875)	2.75
Balance at September 30, 2020	<u>204,051</u>	<u>\$ 1.94</u>
Vested and unissued at September 30, 2020	<u>20,783</u>	<u>\$ 2.21</u>

Vested and unissued awards at September 30, 2020 represents RSU awards for which the vesting date was September 30, 2020, but for which issuance of the awards occurred in October 2020. As of September 30, 2020, the total unrecognized compensation cost related to RSU awards was approximately \$0.3 million, which is expected to be recognized over approximately 1.93 years.

Stock-based compensation expense recorded in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2020 and 2019 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Selling, general and administrative	\$ 380,676	\$ 226,645	\$ 1,070,651	\$ 625,821
Research and development	884	74,652	81,374	181,336
Cost of product and product-related services revenue	5,389	15,258	11,717	37,976
	<u>\$ 386,949</u>	<u>\$ 316,555</u>	<u>\$ 1,163,742</u>	<u>\$ 845,133</u>

Note 14. Leases

Operating Leases

The Company leases office space and equipment under agreements classified as operating leases that expire on various dates through 2023. The Company’s most significant active leases as of September 30, 2020 are for office and manufacturing space in Tucson, Arizona, which expire in 2021. The Company also leases a development laboratory space in San Carlos, California, which expires in 2023. The Company’s leases do not include any contingent rental payments, impose any financial restrictions, or contain any residual value guarantees. Certain of the Company’s leases include renewal options and escalation clauses; renewal options have not been included in the calculation of the lease liabilities and right-of-use assets as the Company is not reasonably certain to exercise the options. Annual rent increases are included in the calculation of the operating lease right-of-use assets. Variable expenses generally represent the Company’s share of the landlord’s operating expenses and are recorded when incurred. Incremental borrowing rates used to discount future lease payments in calculating lease liabilities were estimated by reference to the rate on the Company’s existing debt, as this represents the cost of borrowing for secured loans of similar duration. The Company does not have any operating lease arrangements where it acts as a lessor.

The components of lease cost for operating leases were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating leases				
Operating lease cost	\$ 182,287	\$ 174,581	\$ 570,163	\$ 435,312
Variable lease cost	36,554	36,210	89,716	89,468
Operating lease expense	<u>218,841</u>	<u>210,791</u>	<u>659,879</u>	<u>524,780</u>
Short-term lease rent expense	—	—	—	1,497
Total rent expense	<u>\$ 218,841</u>	<u>\$ 210,791</u>	<u>\$ 659,879</u>	<u>\$ 526,277</u>

The table below summarizes other information related to the Company's operating leases:

	Nine Months Ended September 30,	
	2020	2019
Operating cash flows for operating leases	\$ 665,095	\$ 550,024
Establishment of operating lease liabilities arising from obtaining right-of-use assets	\$ 21,078	\$ 2,038,193
Weighted-average remaining lease term – operating leases	1.9	2.4
Weighted-average discount rate – operating leases	9.6%	9.6%

As of September 30, 2020, remaining maturities of our operating leases, excluding short-term leases, are as follows:

2020	\$ 218,157
2021	340,970
2022	281,232
2023	70,848
Total	911,207
Less present value discount	(84,311)
Operating lease liabilities, net	\$ 826,896

Financing Leases

The Company has a number of computer and copier equipment leases that are classified as financing leases. Incremental borrowing rates used to discount future lease payments in calculating lease liabilities were estimated by reference to information received by the Company from bankers regarding estimated current borrowing rates for collateralized loans with similar amount and duration as the leases. The Company does not have any material financing leases where it acts as a lessor.

The components of lease cost for financing leases were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Financing leases				
Amortization of right-of-use assets	\$ 10,035	\$ 10,128	\$ 34,033	\$ 36,908
Interest on lease liability	2,092	1,559	7,074	5,528
Total financing lease cost	\$ 12,127	\$ 11,687	\$ 41,107	\$ 42,436

The table below summarizes other information related to the Company's financing leases:

	Nine Months Ended September 30,	
	2020	2019
Weighted-average remaining lease term – financing leases	3.5	2.0
Weighted-average discount rate – financing leases	9.77%	9.77%

As of September 30, 2020, remaining maturities of our financing leases are as follows:

2020	\$ 10,445
2021	28,355
2022	20,716
2023	18,396
2024	16,080
Total	93,992
Less present value discount	(14,737)
Financing lease liabilities, net	\$ 79,255

At September 30, 2020, the Company had financing lease liabilities net of discount of \$79,255, of which \$26,620 was included in other current liabilities and \$52,635 was included in other non-current liabilities, and financing right-of-use assets of \$75,563, which were included in property and equipment, net, in the accompanying condensed consolidated balance sheet.

Note 15. Commitments and Contingencies

Legal Matters

The Company's industry is characterized by frequent claims and litigation, including claims regarding intellectual property and product liability. As a result, the Company may be subject to various legal proceedings from time to time. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors. Any current litigation is considered immaterial and counter claims have been assessed as remote.

Product Warranty

The following is a summary of the Company's general product warranty liability, which is included in accrued liabilities in the accompanying condensed consolidated balance sheets as of the dates indicated. Expense relating to the recording of this reserve is recorded in cost of product and product-related services revenue within the accompanying condensed consolidated statements of operations.

	Nine Months Ended September 30,	
	2020	2019
Beginning balance	\$ 94,482	\$ 63,461
Cost of warranty claims	(19,310)	(38,691)
Increase in warranty reserve	12,423	64,637
Ending balance	<u>\$ 87,595</u>	<u>\$ 89,407</u>

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2019, and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 25, 2020. This discussion and analysis contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward looking statements include, but are not limited to, statements about:

- our ability to successfully commercialize our products and services, including our HTG EdgeSeq assays and corresponding automation systems;
- our ability to generate sufficient revenue or raise additional capital to meet our working capital needs;
- our ability to generate revenue from our products and services and drive revenue streams;
- the impact of the COVID-19 pandemic on our business;
- our ability to develop new technologies to expand our product offerings, including direct-target sequencing for detection of mutations from expressed RNA (such as single-point mutations and gene rearrangements, including gene fusions and insertions) and a whole-transcriptome product;
- the activities anticipated to be performed by us and third parties under design and development projects and programs, and the expected benefits and outcomes of such projects and programs;
- the implementation of our business model and strategic plans for our business;
- the regulatory landscape for our products, domestically and internationally;
- our strategic relationships, including with holders of intellectual property relevant to our technologies, manufacturers of next-generation sequencing (“NGS”) instruments and consumables, critical component suppliers, distributors of our products, and third parties who conduct our clinical studies;
- our intellectual property position;
- our ability to comply with the restrictions of our debt facility and meet our debt obligations;
- our expectations regarding the market size and growth potential for our life sciences and diagnostic businesses;
- our expectations regarding trends in the demand for sample processing by our biopharmaceutical company customers;
- our ability to secure regulatory clearance or approval, domestically and internationally, for the clinical use of our products;
- any estimates regarding expenses, future revenue and capital requirements; and
- our ability to sustain and manage growth, including our ability to develop new products and enter new markets.

In some cases, you can identify these statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “continue,” “seek,” “project,” “should,” “will,” “would” or the negative of those terms, and similar expressions. These forward-looking statements reflect our management’s beliefs and views with respect to future events and are based on estimates and assumptions as of the date of this filing and are subject to risks and uncertainties. We discuss many of these risks in greater detail in Part II, Item 1A - “Risk Factors” and elsewhere in this filing. You should carefully read the “Risk Factors” section of this filing to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. These statements, like all statements in this report, speak only as of their date, and except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we make. Given these uncertainties, you should not place undue reliance on these forward-looking statements. In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this report, and while we believe such information forms a reasonable basis for such

statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information.

Overview

We are a commercial stage RNA platform-based life sciences company focused on advancing the promise of precision medicine. Our product and service solutions are based on our proprietary next-generation HTG EdgeSeq technology that enables targeted RNA profiling using a small amount of biological sample, in liquid or solid forms. Our menu of HTG EdgeSeq assays is automated on our HTG EdgeSeq system, which applies genomic sequencing tools that generate gene expression data in a timely manner utilizing a simplified workflow for customers. We seek to leverage key business drivers in molecular profiling for biomarker analysis and diagnostics, including the acceleration of precision medicine, the migration of molecular testing to NGS-based applications, the movement to smaller and less invasive biopsies, the need for greater diagnostic sensitivity, the need to conform to challenging healthcare economics and the need for automation and an easily deployable workflow, including simplified bioinformatics. For example, these capabilities enable customers to extend the use of limited biological samples for retrospective analysis, gaining further understanding of the molecular drivers of disease with the goal of developing biomarker-driven targeted therapies. We also believe our HTG EdgeSeq technology can be used as a platform technology in clinical applications that will simplify, consolidate and reduce the cost of NGS-based diagnostic workflows and in commercialized companion diagnostic (“CDx”) tests.

Our products include instruments, consumables, including assay kits, and software that, as an integrated platform, automate sample processing and can quickly, robustly and simultaneously profile tens, hundreds or thousands of molecular targets from samples a fraction of the size required by many prevailing technologies. Our objective is to establish our solutions as the standard in molecular profiling, companion diagnostic development and molecular diagnostics, and to make their benefits accessible to all molecular labs from research to the clinic. We believe that our target customers desire high quality molecular profiling information in a multiplexed panel format from increasingly smaller and less invasive samples, with the ability to test and the option to analyze such information locally to minimize turnaround time and cost.

In 2014, we launched our HTG EdgeSeq technology, which generates a molecular profiling library for gene expression profiling using NGS. Our HTG EdgeSeq assays are automated on our HTG EdgeSeq system. Our innovative platform and menu of molecular profiling panels are being utilized in two complimentary ways in advancing precision medicine. Biopharmaceutical companies and other translational research centers utilize our technology to discover and validate biomarkers and develop molecular subtypes which can identify patient populations most likely to respond to certain therapies. In addition to purchasing our technology for use in customer facilities, customers can also obtain the advantages of our proprietary technology through our service offerings. Pre-clinical services, including custom assay design and sample processing services provided by our Tucson-based VERI/O laboratory, allow customers the ability to more efficiently identify and validate biomarker signatures across their drug portfolios or patient cohorts. Our ISO 13485-2016 certified quality system and diagnostic development teams, in partnership with biopharmaceutical company customers, develop, manufacture and support clinical trials with investigation use only assays for potential companion diagnostics. Although our initial focus has been oncology, we offer customers a full solution from biomarker discovery to deployment of CDx assays across numerous disease states. Utilizing NGS as our method of detection provides our customers with the benefits of our highly multiplexed and extraction-free chemistry and the sensitivity and dynamic range of the sequencers, providing a powerful value proposition and complete workflow.

RNA-based applications represent a large and growing market with significant, unmet needs where our HTG EdgeSeq platform has allowed us to demonstrate competitive advantages. We believe that our platform technology can enable gene expression profiling growth to accelerate as we make NGS-based gene expression analysis easier and more sample sparing.

We have two primary sources of revenue: product and product-related services revenue from the sale of research use only (“RUO”) and CE IVD marked profiling products, sample processing services and custom assay design services to biopharmaceutical companies, academic research centers and molecular testing laboratories; and revenue from collaborative development services for companion diagnostic development programs for biopharmaceutical companies.

Profiling product and product-related services revenue includes customer purchases of our HTG EdgeSeq instrument and related assay kits, design of custom RUO assay kits for customers and the use of our HTG EdgeSeq instrument and RUO assay kits to process samples on the customer’s behalf in our VERI/O laboratory. In addition, we sell two internally developed proprietary CE IVD marked assays, including our HTG EdgeSeq DLBCL Cell of Origin Assay EU and HTG EdgeSeq ALKPlus Assay EU. Additional diagnostic tests are in early stage development in collaboration with our European customers. Our team of field-based and support services employees throughout Europe facilitate our ability to generate product revenue in Europe and to improve our responsiveness to customer needs in that region. While we have closed our applications laboratory in Sausheim, France, we continue to perform sample processing and collaborative development services for our global customer base in our VERI/O laboratory in the United States.

Collaborative development revenue relates to services performed using our HTG EdgeSeq proprietary technology to develop, seek regulatory approval for and commercialize companion diagnostic assays for biopharmaceutical drug candidates and corresponding therapeutics. Collaborative development services revenue recognized to date has been generated primarily pursuant to the Master Assay Development, Commercialization and Manufacturing Agreement between us and QIAGEN Manchester Limited (“QML”) dated November 2016 (the “Governing Agreement”). In November 2019, we terminated the Governing Agreement. Our termination of the Governing Agreement did not terminate active statements of work under the Governing Agreement. On a going-forward basis, we expect to enter into additional collaborative development services arrangements directly with biopharmaceutical company customers, which we believe will result in improved economics from these arrangements and not limit the sequencer platform used for development. In August 2020, we entered into a Commercialization and Distribution Agreement with QML that we believe will provide our customers distribution and commercialization options with QML in the event that a companion diagnostic assay is developed under one of these development services arrangements in the future.

Collaborative development services, as well as laboratory services, represent a services-oriented model. However, we anticipate that these services will be a catalyst toward a product-based strategy as an increase in our menu of diagnostic panels is expected to result in increased demand for our instrument and consumables products in individual laboratories and customer locations.

In March 2020, the World Health Organization announced that a new strain of coronavirus originating in Wuhan, China had become a pandemic. The full impact of the COVID-19 pandemic on our financial condition, liquidity and future results of operations remains fluid and uncertain as of the date of this report. We experienced a significant slowing of product and product-related services revenue generation beginning in March 2020 and we believe this period of reduced revenue will continue through at least the remainder of 2020 due to continued disruptions to our customers’ businesses from the pandemic and, in many instances, their prioritization of projects in areas focus related to COVID-19. We have also experienced limited delays in our development efforts as a result of stay-at-home orders and our efforts to prioritize the safety of our employees during this pandemic. However, all 2020 key development milestones have been met and high priority development efforts have continued, including extensive experiment study planning and analysis, despite operational challenges including more limited activity in our wet labs. We believe the COVID-19 pandemic will continue to impact our productivity, supply chains, distribution networks and other areas of our operation as the pandemic continues to disrupt our business and the businesses of our vendors, partners and customers.

Our 2020 development efforts have been aimed at expansion of our position in translational medicine with our RUO molecular profiling products, including adding to the utility of our targeted oncology, immuno-oncology, autoimmune and micro RNA panels with the addition of new applications and analytical capabilities released in our HTG EdgeSeq Reveal software. This web-based biostatistical analysis software is designed to accelerate customer research by streamlining their statistical analysis of samples processed with our HTG EdgeSeq RUO profiling assays. In addition, we have continued to reach key milestones in the development of our whole transcriptome product toward a planned RUO launch in 2021. This panel is expected to measure approximately 20,000 biomarkers and we believe that it will be a foundational product not only for RUO profiling, but also for our companion diagnostics and potential proprietary diagnostic products. We also expect this product to expand our product offerings outside of oncology and autoimmune and into additional markets such as transplant and diabetes.

On April 21, 2020, we received proceeds from a loan in the amount of \$1,717,000 (the “PPP Loan”) from Silicon Valley Bank (“SVB”), as lender, pursuant to the Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The PPP Loan matures on April 21, 2022 and bears interest at an annual rate of 1%. All or a portion of the PPP Loan may be forgiven by the U.S. Small Business Administration (“SBA”) upon the SBA’s review and acceptance of the documentation provided with the forgiveness application submitted in October 2020 in accordance with the SBA requirements. Beginning on March 21, 2021, we are required to make 14 equal monthly principal and interest payments on all amounts that are not forgiven. We may prepay the PPP Loan at any time prior to maturity with no prepayment penalties.

In June 2020, we entered into a Loan and Security Agreement (the “Loan Agreement”) with Silicon Valley Bank (“SVB”), as lender, which provides a secured term loan in the principal amount of \$10.0 million (the “SVB Term Loan”). The proceeds from the SVB Term Loan were fully funded on the June 25, 2020, and were used, together with cash on hand, to repay in full all outstanding amounts and fees due under the MidCap Credit Facility and the QNAH Convertible Note (see Note 8 to our condensed consolidated financial statements included elsewhere in this report). The SVB Term Loan bears interest at a floating rate equal to the greater of 2.50% above the Prime Rate (as defined in the Loan Agreement) and 5.75%. Interest on the SVB Term Loan is due and payable monthly in arrears. The SVB Term Loan has interest-only payments through June 30, 2021. The interest only period may be extended for six months upon the achievement of an equity milestone as fully defined in the Loan Agreement. The ultimate interest-only period will be followed by equal monthly payments of principal and interest through the maturity date of December 1, 2023.

Results of Operations

Comparison of the three and nine months ended September 30, 2020 and 2019

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
Revenue:								
Product and product-related services	\$ 1,701,068	\$ 4,311,043	\$ (2,609,975)	(61%)	\$ 5,417,731	\$ 11,397,916	\$ (5,980,185)	(52%)
Collaborative development services	76,030	1,093,750	(1,017,720)	(93%)	548,135	3,006,022	(2,457,887)	(82%)
Total revenue	1,777,098	5,404,793	(3,627,695)	(67%)	5,965,866	14,403,938	(8,438,072)	(59%)
Operating expenses:								
Cost of product and product-related services revenue	940,892	2,939,007	(1,998,115)	(68%)	2,931,026	7,492,905	(4,561,879)	(61%)
Selling, general and administrative	4,752,321	4,516,341	235,980	5%	13,683,069	13,657,917	25,152	0%
Research and development	1,255,416	2,570,355	(1,314,939)	(51%)	4,914,467	7,898,742	(2,984,275)	(38%)
Total operating expenses	6,948,629	10,025,703	(3,077,074)	(31%)	21,528,562	29,049,564	(7,521,002)	(26%)
Operating loss	(5,171,531)	(4,620,910)	(550,621)	12%	(15,562,696)	(14,645,626)	(917,070)	6%
Loss on extinguishment of MidCap Credit Facility	—	—	—	100%	(522,394)	—	(522,394)	100%
Other income (expense)	(238,676)	(123,000)	(115,676)	94%	(482,599)	(259,552)	(223,047)	86%
Net loss before income taxes	\$ (5,410,207)	\$ (4,743,910)	\$ (666,297)	14%	\$ (16,567,689)	\$ (14,905,178)	\$ (1,662,511)	11%

Revenue

We generate revenue from two primary sources: product and product-related services revenue from the sale of RUO and CE IVD marked profiling products, sample processing services and custom assay design services to biopharmaceutical companies, academic research centers and molecular testing laboratories; and revenue from collaborative development services for biopharmaceutical companies under our companion diagnostic development programs.

RUO profiling is currently made available to our customers through product sales and service offerings. Customers can purchase our HTG EdgeSeq instrument and related consumables, which consist primarily of our proprietary molecular profiling panels and other assay components. Customers can also access our technology through contracted services. We perform these services using our HTG EdgeSeq instruments and RUO consumables to process samples in our VERI/O laboratory. Our proprietary technology is also used to develop custom RUO panels which are expected to generate future sample processing or RUO consumables revenue.

Collaborative development services revenue generated to date has primarily related to three statements of work entered into under our Governing Agreement with QML. Under these agreements, we and QML combined our technological and commercial strengths to offer biopharmaceutical companies a complete NGS-based solution for the development, manufacture and commercialization of companion diagnostic assays in support of and in conjunction with, biopharmaceutical companies' drug development programs.

Total revenue decreased by 67% and 59% to \$1.8 million and \$6.0 million for the three and nine months ended September 30, 2020, respectively, compared with \$5.4 million and \$14.4 million for the three and nine months ended September 30, 2019, respectively. The COVID-19 pandemic has continued to negatively impact our ability to generate direct and collaborative development services revenue since March 2020 as numerous academic and biopharmaceutical company customers' facilities have been closed or partially closed due to the pandemic. These closures have continued to limit our ability to ship instruments and consumables to customer facilities and has limited their ability to prepare and ship samples to our VERI/O laboratory. In some geographies, especially at our global academic medical center customers' sites, we saw a growing number of these operations returning to work, at least on a limited capacity, in the third quarter of 2020. In other areas, such as our large biopharmaceutical customers, the reopening process has been slower than anticipated as these customers remain cautious about reopening their facilities due to continued increases in COVID-19 infection rates. In addition, these customers are operating with limited resources in certain cases and are prioritizing other COVID-related programs in the near term, impacting our ability to resume non-COVID programs planned with these customers prior to the pandemic. While we cannot be certain of the ultimate impact the COVID-19 pandemic will have on our business and that of our customers, we anticipate the generation of our product and product-related services revenue will resume in future periods as our and our customers' operations are able to return to pre-COVID-19 levels.

Product and product-related services revenue

Product and product-related services revenue, which includes biomarker profiling revenue generated through the sale of our HTG EdgeSeq instruments and consumables and from services performed for customers in our VERI/O laboratory using our proprietary RUO technology, decreased to \$1.7 million and \$5.4 million for the three and nine months ended September 30, 2020, respectively, compared with \$4.3 million and \$11.4 million for the three and nine months ended September 30, 2019, respectively. Product and product-related services revenue represented 96% and 91% of our total revenue for the three and nine months ended September 30, 2020, respectively, compared with 80% and 79% of total revenue for the three and nine months ended September 30, 2019, respectively, and was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Product revenue:				
Instruments	\$ 71,742	\$ 414,491	\$ 563,396	\$ 1,100,606
Consumables	764,605	1,058,386	2,091,848	2,218,674
Total product revenue	836,347	1,472,877	2,655,244	3,319,280
Product-related services revenue:				
Custom RUO assay design	238,502	2,129,251	1,210,968	3,978,428
RUO sample processing	626,219	708,915	1,551,519	4,100,208
Total product-related services revenue	864,721	2,838,166	2,762,487	8,078,636
Total product and product-related services revenue	\$ 1,701,068	\$ 4,311,043	\$ 5,417,731	\$ 11,397,916

Product revenue generated from the sale of our HTG EdgeSeq instruments and RUO and CE IVD assay kits decreased by 43% and 20% to \$0.8 million and \$2.7 million for the three and nine months ended September 30, 2020, respectively, compared with \$1.5 million and \$3.3 million for the three and nine months ended September 30, 2019, respectively. Product revenue represented 47% and 45% of our total revenue for the three and nine months ended September 30, 2020, respectively, compared with 27% and 23% of our total revenue for the three and nine months ended September 30, 2019, respectively. The decrease in product revenue in 2020 compared with 2019 reflects our limited ability to ship instruments and consumables to our customers' facilities due to their facility closures resulting from the COVID-19 pandemic. The decrease also reflects a slower than anticipated return to pre-COVID purchasing patterns. In addition to reflecting decreased revenue in other areas of our core business, the increase in product revenue as a percentage of total revenue reflects purchasing by our European customers, who historically have accessed our technology through instrument and consumables purchases and who generally began their return to work in the second and third quarters of 2020 to a greater extent than our domestic customer base. We continue to discuss future studies with both new and existing customers and expect demand for our products to continue to increase as our customers are able to return to pre-COVID operating levels.

Service revenue, consisting of RUO sample processing using our HTG EdgeSeq instruments and consumables in our VERI/O laboratory and custom RUO assay design, decreased 70% and 66% to \$0.9 million and \$2.8 million for the three and nine months ended September 30, 2020, respectively, compared with \$2.8 million and \$8.1 million for the three and nine months ended September 30, 2019, respectively. The decrease in service revenue for the three and nine months ended September 30, 2020 compared with the same periods in 2019, primarily reflects a reduction in RUO sample processing revenue due to continued COVID-19-related delays in sample receipt for anticipated customer programs and high levels of subcontracted laboratory services in 2019 which did not recur in 2020. Although a number of our customers began to return during the latter part of the second quarter and throughout the third quarter of 2020, our larger biopharmaceutical company customers, who have historically represented the largest portion of our services business, continue to experience slower resumption of their onsite operations or are reprioritizing current year projects due to COVID-19 impacts on their operations. It remains uncertain if our larger biopharmaceutical customers will resume previously planned studies in the future as their activities return to pre-COVID levels.

Collaborative development services revenue

Collaborative development services revenue includes services performed on biopharmaceutical company companion diagnostic development programs using our HTG EdgeSeq proprietary technology to develop, validate in clinical trials, seek regulatory approvals for and commercialize CDx assays for biopharmaceutical company therapeutics. Collaborative development services revenue, consisting of precision diagnostic program services performed for biopharmaceutical companies pursuant to our Governing Agreement with QML, decreased by 93% and 82% to \$0.1 million and \$0.5 million for the three and nine months ended September 30, 2020, respectively, compared with \$1.1 million and \$3.0 million for the three and nine months ended September 30, 2019, respectively. Collaborative development services revenue represented 4% and 9% of our total revenue for the three and nine months ended September 30, 2020, respectively, compared with 20% and 21% of our total revenue for the three and nine months ended September 30, 2019, respectively. These decreases reflect reduced, remaining contracted development tasks on our existing programs as we continue to await additional activity based on customer decision points and that no additional collaborative development

services programs have been entered into in 2020. Though we continue to seek potential, new customer collaborations, we currently do not anticipate significant revenue from collaborative development services programs in 2020.

Cost of product and product-related services revenue

Cost of product and product-related services revenue includes product-related and services-related costs. Product-related costs include the aggregate costs incurred in manufacturing, delivering, installing and servicing instruments and consumables. The components of our product-related costs of revenue include consumables and lab supplies, subcomponent and servicing costs, manufacturing costs incurred internally (which include direct labor costs), and equipment and infrastructure expenses associated with the manufacturing and distribution of our products. Due to the fixed nature of certain of these expenses, such as overhead, equipment and infrastructure, associated with our regulated industry and our expectations for further growth in customer demand, we expect our cost of product and product-related services revenue as a percentage to decrease over time as we increase product and product-related services revenue, further absorbing these fixed costs.

Cost of product and product-related services revenue decreased by 68% and 61% to \$0.9 million and \$2.9 million for the three and nine months ended September 30, 2020, respectively, compared with \$2.9 million and \$7.5 million for the three and nine months ended September 30, 2019, respectively. This decreased cost is consistent with the decrease in product and product-related services revenue for the three and nine months ended September 30, 2020 compared with 2019. The decrease in cost of product and product-related services revenue as a percentage of product and product-related services revenue for the nine months ended September 30, 2020 compared with the same period in 2019 is primarily the result of lower margin subcontracted laboratory services relating to two large biopharmaceutical company customer programs in 2019.

Selling, general and administrative expenses

Selling, general and administrative expenses consist primarily of personnel costs for our sales and marketing, regulatory, legal, executive management and finance and accounting functions. The expenses also include third-party professional and consulting fees incurred by these functions, promotional expenses and facility and overhead costs for our administrative offices. Selling, general and administrative expenses increased by 5% for the three months ended September 30, 2020 compared with the same period in 2019 and remained consistent for the nine months ended September 30, 2020 compared with the same period in 2019. Selling, general and administrative expense was \$4.8 million and \$13.7 million for the three and nine months ended September 30, 2020, respectively, compared with \$4.5 million and \$13.7 million for the three and nine months ended September 30, 2019, respectively. The increase in third quarter 2020 selling, general and administrative expense compared with the prior year reflects an increase in stock-based and other compensation-related expense items.

Research and development expenses

Research and development expenses represent amounts incurred to perform collaborative development services, costs to develop new proprietary panels and corresponding assays and costs to continue to develop and improve our HTG EdgeSeq technology. These expenses include payroll and related expenses, consulting expenses, laboratory supplies, facilities and equipment. Research and development costs are expensed as incurred. Research and development expenses decreased by 51% and 38% to \$1.3 million and \$4.9 million for the three and nine months ended September 30, 2020, respectively, compared with \$2.6 million and \$7.9 million for the three and nine months ended September 30, 2019, respectively. This decrease is primarily due the slowing or reduction of development programs associated with our biopharmaceutical customer companion diagnostic development programs in 2020 when compared with the same period in 2019. Development costs associated with these programs are included in research and development expense in our condensed consolidated statements of operations as the contracts are accounted for under the accounting guidance for collaborative arrangements. Costs associated with our collaborative development services revenue were less than \$0.1 million and \$0.4 million for the three and nine months ended September 30, 2020 compared with \$0.6 million and \$2.0 million for the three and nine months ended September 30, 2019.

Cash Flows for the nine months ended September 30, 2020 and 2019

The following table summarizes the primary sources and uses of cash for each of the periods presented:

	<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>
Net cash provided by (used in):		
Operating activities	\$ (12,742,237)	\$ (12,838,847)
Investing activities	13,465,406	19,123,806
Financing activities	7,262,021	20,099,689
Effect of exchange rate on cash	9,283	29,838
Increase in cash, cash equivalents and restricted cash	<u>\$ 7,994,473</u>	<u>\$ 26,414,486</u>

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2020 was \$12.7 million compared with \$12.8 million for the nine months ended September 30, 2019. Net cash used in operating activities for the nine months ended September 30, 2020 reflected (i) a net loss of \$16.6 million; (ii) net non-cash items of \$3.6 million, consisting primarily of stock-based compensation of \$1.2 million, depreciation and amortization of \$1.0 million, loss on extinguishment of MidCap Credit Facility and QNAH Convertible Note of \$0.5 million, and amortization of right-of-use assets of \$0.5 million; and (iii) a net cash inflow from changes in balances of operating assets and liabilities of \$0.2 million.

Net cash used in operating activities for the nine months ended September 30, 2019 was \$12.8 million. Net cash used in operating activities for the nine months ended September 30, 2019 reflected (i) a net loss of \$14.9 million; (ii) net non-cash items of \$2.3 million, consisting primarily of depreciation and amortization of \$0.9 million and stock-based compensation of \$0.8 million; and (iii) a net cash outflow from changes in balances of operating assets and liabilities of \$0.2 million. This net cash outflow was primarily due to a decrease in accrued liabilities as a result of the payment of annual performance-based bonuses in the first quarter 2019, partially offset by a decrease in accounts receivable primarily due to collection of year-end receivables and a decrease of collaborative development services revenue in 2019.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2020 was \$13.5 million compared with \$19.1 million for the nine months ended September 30, 2019 and was comprised primarily of maturities of available-for-sale securities of \$25.5 million, partially offset by purchases of available-for-sale securities of \$11.6 million.

Net cash provided by investing activities for the nine months ended September 30, 2019 was \$19.1 million. Net cash provided by investing activities for the nine months ended September 30, 2019 was comprised primarily of maturities of available-for-sale securities of \$30.8 million, partially offset by purchases of available-for-sale securities of \$10.9 million and the purchase of laboratory equipment and other fixed assets during the period.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2020 was \$7.3 million compared with net cash provided by financing activities for the nine months ended September 30, 2019 of \$20.1 million. This activity for the nine months ended September 30, 2020 consisted primarily of \$6.4 million in net proceeds from our ATM Offering, \$1.7 million in proceeds from our PPP Loan, and \$0.6 million in proceeds from our Series A convertible preferred stock private placement, partially offset by \$0.6 million of net payments to extinguish our QNAH Convertible Note and MidCap Credit Facility obligations with cash on hand and proceeds from our SVB Term Loan, \$0.5 million of payments made on our outstanding NuvoGen obligation, and \$0.3 million of payments made on our Insurance Note.

Net cash provided by financing activities for the nine months ended September 30, 2019 was \$20.1 million. This activity for the nine months ended September 30, 2019 consisted primarily of \$20.8 million in net proceeds from our underwritten public offering and concurrent private placement in September 2019, offset by \$1.0 million of payments made on our outstanding NuvoGen obligation.

Liquidity and Capital Resources

Since our inception, our operations have primarily been financed through the issuance of our common stock, redeemable convertible preferred stock, the incurrence of debt and cash received from product sales, services revenue and other income. As of September 30, 2020, we had \$30.5 million in cash, cash equivalents and investments in short-term available-for-sale securities, and \$17.3 million of liabilities outstanding relating to our SVB Term Loan, NuvoGen and PPP Loan obligations and our financing and operating leases.

In September 2019, we completed an underwritten public offering in which we sold 29,298,537 shares of our common stock at a price of \$0.65 per share, including 3,821,548 shares sold pursuant to the exercise in full of the underwriter's option to purchase additional shares. The shares of common stock described above were offered pursuant to a Registration Statement on Form S-3 (File No. 333-229045) previously filed with the SEC and declared effective by the SEC on February 11, 2019, and a prospectus supplement thereafter. In addition, we concurrently entered into a securities purchase agreement with certain institutional accredited investors for the sale of 5,411,687 pre-funded warrants exercisable for an aggregate of 5,411,687 shares of common stock, at a purchase price of \$0.64 per pre-funded warrant. The aggregate net proceeds from these offerings for the year ended December 31, 2019 were approximately \$20.8 million, after deducting the underwriting discounts and commissions and offering expenses. Additional proceeds of \$31,768 were received in the first quarter of 2020 as a result of the exercise of 3,176,762 of the pre-funded warrants.

In November 2019, we entered into a Controlled Equity Offering Sales Agreement (the “Cantor Sales Agreement”) with Cantor as sales agent, pursuant to which we may offer and sell, from time to time, through Cantor, shares of our common stock by any method deemed to be an “at the market offering” as defined by rule 415(a)(4) under the Securities Act (the “ATM Offering”). The shares will be offered and sold pursuant to our shelf registration statement on Form S-3 (File No. 333-229045). We have offered and sold 10,436,016 shares of our common stock under the ATM Offering through September 30, 2020 for net proceeds of \$6.4 million. As of September 30, 2020, we are permitted to sell up to approximately \$8.6 million of additional shares of our common stock under the current prospectus supplement for the ATM Offering.

In February 2020, we issued 41,100 shares of our Series A convertible preferred stock (“Series A Preferred”) to accredited investors, in exchange for the investors surrendering to us for cancellation an aggregate of 4,110,000 shares of our common stock. In addition, we sold an aggregate of 10,170 additional shares of our Series A Preferred to the accredited investors for aggregate gross proceeds of approximately \$600,000, and transaction costs of approximately \$37,000. Each share of Series A Preferred is convertible into 100 shares of the Company’s common stock, subject to proportional adjustment and beneficial ownership limitations. In June 2020, the investors elected to convert 27,500 shares of Series A Preferred to common stock, resulting in the issuance of 2,750,000 shares of the Company’s common stock. The remaining 23,770 shares of Series A Preferred remain outstanding as of September 30, 2020. In the event of our liquidation, dissolution or winding up, holders of Series A Preferred will participate pari passu with any distribution of proceeds to holders of our common stock. Holders of Series A Preferred are entitled to receive dividends on shares of Series A Preferred equal (on an as converted to common stock basis) to and in the same form as dividends actually paid on our common stock. Shares of Series A Preferred generally have no voting rights, except as required by law.

In March 2020, we entered into a purchase agreement (“LP Purchase Agreement”) with Lincoln Park Capital Fund, LLC (“Lincoln Park”) pursuant to which, upon the terms and subject to the conditions and limitations set forth therein, we have the right to sell to Lincoln Park up to \$20,000,000 of shares of our common stock (“Purchase Shares”) from time to time over the 36-month term of the LP Purchase Agreement. The purchase price of the Purchase Shares will be based on recent closing prices of our common stock at the time of sale. We issued Lincoln Park an aggregate of 615,384 shares of our common stock as consideration for their purchase commitment pursuant to the LP Purchase Agreement. No shares of our common stock have been sold to Lincoln Park under the LP Purchase Agreement as of the date of this filing.

In April 2020, we received the proceeds from the PPP Loan in the amount of \$1,717,000 from SVB, as lender, pursuant to the Paycheck Protection Program of the CARES Act. The PPP Loan matures on April 21, 2022 and bears interest at an annual rate of 1%. Beginning on March 21, 2021, we are required to make 14 equal monthly payments of principal and interest for all amounts that are not forgiven through the SBA’s application and documentation process. We may prepay the PPP Loan at any time prior to maturity with no prepayment penalties.

On June 24, 2020, we entered into the Loan Agreement in the principal amount of \$10.0 million with SVB. The proceeds from the SVB Term Loan were fully funded on the June 25, 2020. The proceeds from the SVB Term Loan, together with cash on hand, were used to repay in full all outstanding amounts and fees due under our MidCap Credit Facility and the QNAH Convertible Note. Our SVB Term Loan bears interest at a floating rate equal to the greater of 2.50% above the Prime Rate (as defined in the Loan Agreement) and 5.75% and requires interest-only payments payable monthly in arrears through June 30, 2021. This interest-only period may be extended for an additional six months upon achievement of an equity milestone defined in the Loan Agreement. The ultimate interest-only period will be followed by equal monthly payments of principal and interest through the maturity date of December 1, 2023. In addition, we must comply with a financial covenant requiring that we maintain a certain amount of unrestricted cash under our Loan Agreement with SVB (see Note 8 to our condensed consolidated financial statements included elsewhere in this report).

Funding Requirements

We have had recurring operating losses and negative cash flows from operations since our inception and have an accumulated deficit of \$186.9 million as of September 30, 2020. As of September 30, 2020, we had cash, cash equivalents and investments in short-term available-for-sale securities of approximately \$30.5 million and had current liabilities of approximately \$6.0 million. As of September 30, 2020, we also had \$14.5 million in long-term liabilities primarily attributable to our SVB Term Loan, PPP Loan and NuvoGen obligations. We believe that our existing resources will be sufficient to fund our planned operations and expenditures for at least the next 12 months from issuance of these condensed consolidated financial statements. However, we cannot provide assurances that our plans will not change or that changed circumstances, especially those related to the COVID-19 pandemic, will not result in the depletion of our capital resources more rapidly than we currently anticipate. These circumstances raise substantial doubt about our ability to continue as a going concern.

Until our revenue reaches a level sufficient to support self-sustaining cash flows, if ever, we may need to raise additional capital to fund our continued operations, including our product development and commercialization activities related to our current and future products. Future funding requirements will depend on a number of factors, including our ability to generate significant revenue, our

ability to repay our debt obligations as they become due, the cost and timing of establishing additional sales, marketing and distribution capabilities, the ongoing cost of research and development activities, the cost and timing of regulatory clearances and approvals, the effect of competing technology and market developments, the nature and timing of companion diagnostic development collaborations we may establish and the successful commercialization of clinical diagnostic products developed and approved as a result of such collaborations and the extent to which we acquire or invest in businesses, products and technologies.

Additional capital may not be available at such times or in amounts needed by us. Even if sufficient capital is available to us, it might be available only on unfavorable terms. If we are unable to raise additional capital in the future when required and insufficient amounts or on terms acceptable to us, we may have to delay, scale back or discontinue one or more product development programs, curtail our commercialization activities, significantly reduce expenses, sell assets (potentially at a discount to their fair value or carrying value), enter into relationships with third parties to develop or commercialize products or technologies that we otherwise would have sought to develop or commercialize independently, cease operations altogether, pursue an acquisition of our company at a price that may result in a significant loss on investment to our stockholders, file for bankruptcy, seek other protection from creditors, or liquidate all of our assets. In addition, if we default under our SVB Term Loan agreement, our lender could foreclose on our assets.

Contractual Obligations

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information otherwise required under this item.

Off-Balance Sheet Arrangements

Through September 30, 2020, we have not entered into any off-balance sheet arrangements as defined by applicable SEC regulations.

Recent Accounting Pronouncements

See Note 2. Summary of Significant Accounting Policies – Recently Adopted and Recently Issued Accounting Pronouncements in the notes to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Significant Judgments and Estimates

Our management’s discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Items subject to estimates based on judgments include, but are not limited to: revenue recognition, stock-based compensation expense, the resolution of uncertain tax positions, income tax valuation allowances, recovery of long-lived assets and provisions for doubtful accounts, inventory obsolescence and inventory valuation. Actual results could materially differ from these estimates and such differences could affect the results of operations in future periods.

There were no changes in our critical accounting policies and estimates during the nine months ended September 30, 2020 from those set forth in “Critical Accounting Policies and Significant Judgments and Estimates” in our December 31, 2019 Annual Report on Form 10-K filed with the SEC on March 25, 2020 other than the adoption of the following new accounting pronouncements in the first quarter of 2020.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which made a number of changes meant to add, modify or remove certain disclosure requirements associated with the movement against or hierarchy associated with Level 1, Level 2 and Level 3 fair value measurements. The standard was adopted on January 1, 2020 and did not have a material impact on the disclosures relating to our existing fair value measurements.

In November 2018, the FASB issued ASU No. 2018-18, which amended ASC 808, *Collaborative Arrangements* and ASC 606, *Revenue from Contracts with Customers* (“ASU 2018-18”), to require that transactions in collaborative arrangements be accounted for under ASC 606 if the counterparty is a customer for a good or service (or bundle of goods and services) that is a distinct unit of account. The amendments also precluded entities from presenting consideration from transactions with a collaborator that is not a customer together with revenue recognized from contracts with customers. We adopted ASU 2018-18 on January 1, 2020. The adoption of ASU 2018-18 did not have an impact on our condensed consolidated financial statements as it did not change the way collaborative development services revenue and the related costs of these services are reflected in our condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information otherwise required under this item.

Item 4. Controls and Procedures.***Evaluation of Disclosure Controls and Procedures.***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported with the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

As of September 30, 2020, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this quarterly report, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting.

An evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any changes in our internal control over financial reporting that occurred during our latest fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

Item 1. Legal Proceedings.

We are not engaged in any material legal proceedings. However, in the normal course of business, we may from time to time be named as a party to legal claims, actions and complaints, including matters involving employment, intellectual property, vendors, customers or others.

Item 1A. Risk Factors.**RISK FACTOR SUMMARY**

Below is a summary of the principal factors that make an investment in our common stock speculative or risky. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading “Risk Factors” and should be carefully considered, together with other information in this Quarterly Report on Form 10-Q and our other filings with the SEC before making investment decisions regarding our common stock.

- We have incurred losses since our inception and expect to incur losses for the foreseeable future. We cannot be certain that we will achieve or sustain profitability.
- If we are unable to successfully commercialize our products, our business may be adversely affected.
- If our HTG EdgeSeq system and proprietary profiling panels fail to achieve and sustain sufficient market acceptance, or we are not able to continue to expand our service or collaborative relationships with biopharmaceutical customers, either directly or through a collaboration partner, we will not generate expected revenue, and our prospects may be harmed.
- Public health epidemics, pandemics or outbreaks, including the recent coronavirus pandemic, could adversely affect our business.
- Our financial results may vary significantly from quarter to quarter or may fall below the expectations of investors or securities analysts, each of which may adversely affect our stock price.
- We may not be able to develop new products or enhance the capabilities of our systems to keep pace with rapidly changing technology and customer requirements, which could have a material adverse effect on our business and operating results.
- Our HTG EdgeSeq product portfolio requires the use of NGS instrumentation and reagents and could be adversely affected by actions of third-party NGS product manufacturers over whom we have no control.
- Our strategy of developing companion diagnostic products may require large investments in working capital and may not generate any revenues.
- We may need to raise additional capital to fund our operations in the future. If we are unsuccessful in attracting new capital, we may not be able to continue operations or may be forced to sell assets to do so. Alternatively, capital may not be available to us on favorable terms, or if at all. If available, financing terms may lead to significant dilution of our stockholders’ equity.
- The life sciences research and diagnostic markets are highly competitive. We face competition from enhanced or alternative technologies and products, which could render our products and/or technologies obsolete. If we fail to compete effectively, our business and operating results will suffer.
- Our current business depends on levels of research and development spending by academic and governmental research institutions and biopharmaceutical companies, a reduction in which could limit demand for our products and adversely affect our business and operating results.
- As part of our current business model, we intend to seek to enter into strategic development collaborations and licensing arrangements with third parties to develop diagnostic tests, which may never result in the successful development or commercialization of future tests or other products for a variety of reasons, including because our collaborators may not succeed in performing their obligations or may choose not to cooperate with us.
- We are dependent on a single third-party supplier for a certain subcomponent of our systems and the loss of this supplier could harm our business.
- Limitations in the use of our products could harm our reputation or decrease market acceptance of our products; undetected errors or defects in our products could harm our reputation, decrease market acceptance of our products or expose us to product liability claims.
- Payments under the instruments governing our indebtedness may reduce our working capital. In addition, a default under our Silicon Valley Bank Term Loan or cross default under our PPP loan could cause a material adverse effect on our financial position.
- If any members of our management team were to leave us or we are unable to recruit, train and retain key personnel, we may not achieve our goals.

- Approval and/or clearance by the FDA and foreign regulatory authorities for any diagnostic tests will take significant time and require significant research, development and clinical study expenditures and ultimately may not succeed.
- If we are unable to protect our intellectual property effectively, our business will be harmed.
- We may need to depend on certain technologies that are licensed to us. We do not control these technologies and any loss of our rights to them could prevent us from selling some of our products.

RISK FACTORS

An investment in shares of our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this report, and in our other public filings, before deciding to purchase, hold or sell shares of our common stock. The occurrence of any of the following risks could have a material adverse effect on our business, financial condition, results of operations and future growth prospects or cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment. You should consider all of the risk factors described when evaluating our business. We have marked with an asterisk () those risk factors that were not included as separate risk factors in, or reflect changes to the similarly titled risk factors included in Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K, filed with the SEC on March 25, 2020.*

Risks Related to our Business and Strategy

We have incurred losses since our inception and expect to incur losses for the foreseeable future. We cannot be certain that we will achieve or sustain profitability.*

We have incurred losses since our inception and expect to incur losses in the future. We incurred net losses of \$5.4 million and \$16.6 million for the three and nine months ended September 30, 2020, respectively, compared with net losses of \$4.7 million and \$14.9 million for the three and nine months ended September 30, 2019, respectively. As of September 30, 2020, we had an accumulated deficit of \$186.9 million. We expect that our losses will continue for the foreseeable future as we will be required to invest significant additional funds to support product development, including development of new proprietary HTG EdgeSeq panels and products, and the commercialization of our HTG EdgeSeq system and proprietary consumables. We also expect that our selling, general and administrative expenses will continue to increase due to the additional costs associated with market development activities and expanding our staff to sell and support our products and services. Our ability to achieve or, if achieved, sustain profitability is based on numerous factors, many of which are beyond our control, including the market acceptance of our products and services, competitive product development and our market penetration and margins. We may never be able to generate sufficient revenue to achieve or, if achieved, sustain profitability.

If we are unable to successfully commercialize our products, our business may be adversely affected.*

Our HTG Edge system was introduced for sale in the life sciences research market in the third quarter of 2013. Our HTG EdgeSeq chemistry was introduced for sale in the life sciences research market in the third quarter of 2014. Our dedicated HTG EdgeSeq system was introduced for sale in the life sciences research market in the fourth quarter of 2015 and has been our primary product focus since 2016. Our VERI/O service laboratory was announced in June 2016. Our first diagnostic assay, based on our HTG EdgeSeq chemistry and automated in our HTG EdgeSeq system, was introduced for sale in Europe in July 2016. We currently market our products through our own sales force in the United States and Europe and have distributors in parts of Europe and the Middle East. We intend to expand our sales and support teams in the United States and in Europe and to establish additional distributor and/or third-party contract sales team relationships in other parts of the world. However, we may not be able to market and sell our products effectively. Our sales of life science research products, diagnostic products and potential future products will depend in large part on our ability to successfully increase the scope of our marketing efforts and establish and maintain a sales force commensurate with our then applicable markets. If we do not build and maintain an efficient and effective sales force and distributor relationships targeting these markets, our business and operating results will be adversely affected.

If our HTG EdgeSeq system and proprietary profiling panels fail to achieve and sustain sufficient market acceptance, or we are not able to continue to expand our service or collaborative relationships with biopharmaceutical customers, either directly or through a collaboration partner, we will not generate expected revenue, and our prospects may be harmed.

We are currently focused on selling our HTG EdgeSeq system and profiling panels within the life sciences research market and, where approved, in the diagnostic market. We plan to develop panels for many different disease states including companion diagnostics to determine the proper course of treatment for those diseases. We may experience reluctance, or refusal, on the part of physicians to order, and third-party payors to cover and provide adequate reimbursement for, our panels if the results of our research and clinical studies, and our sales and marketing activities relating to communication of these results, do not convey to physicians, third-party payors and patients that the HTG EdgeSeq system and related profiling panels provide equivalent or better diagnostic information than other available technologies and methodologies. We believe our panels represent an emerging methodology in diagnosing disease states, and we may have to overcome resistance among physicians to adopting it for the marketing of our products to be successful. Even if we are able to obtain regulatory approval from the U.S. Food and Drug Administration (“FDA”) or other applicable regulatory authorities, the use of our panels may not become the standard diagnostic tool for those diseases on which we plan to focus our efforts.

In addition, a key component of our strategy is to develop diagnostic tools in conjunction with biopharmaceutical companies’ drug development programs, to help assess the proper course of treatment for specific diseases. Even if we are successful in developing those diagnostic tools and receive regulatory approval, we still may not be successful in marketing those diagnostic tests. Furthermore, the decision to advance an underlying drug candidate through clinical trials and ultimately to commercialization is at the discretion of biopharmaceutical companies with which we collaborate. Our biopharmaceutical partners may take certain actions that could negatively impact the utility and marketability of our diagnostic tests. For example, our biopharmaceutical partners could:

- determine not to actively pursue the development or commercialization of an applicable drug candidate, including due to the failure to demonstrate sufficient efficacy, the occurrence of safety or tolerability issues, or any number of other reasons;
- fail to obtain necessary regulatory approval of an applicable drug candidate;
- obtain regulatory approval for a drug candidate in a manner that neither requires nor recommends the use of a companion diagnostic test prior to its use; or
- choose alternative diagnostic tests to market with their products instead of ours.

To the extent that we develop diagnostic assays for a biopharmaceutical company in collaboration with a collaboration partner, we may not have responsibility for some or all aspects of developing, marketing or commercializing any resulting diagnostic tests. In addition to this biopharmaceutical partner risk, a collaboration partner may take certain actions that could negatively impact the development, utility and marketability of the applicable diagnostic tests. For example, a collaboration partner could fail to satisfy or fall behind in its obligations to us or to the biopharmaceutical company for which we develop a companion diagnostic test, which may delay development, regulatory approvals, market development and/or commercialization of the applicable companion diagnostic test.

As a result of our termination of the Governing Agreement in November 2019, we no longer have a commercialization partner for the development, manufacture and commercialization of companion diagnostics for biopharmaceutical companies. Although the termination of the Governing Agreement does not preclude us from working with QML in the future, either party may be unwilling to partner with the other, and we may be unable to establish a partnering relationship with another suitable company for the development, manufacture, marketing and/or commercialization of companion diagnostic assays on acceptable terms, or at all. If we are unable to establish such a relationship with another company, our efforts to develop, manufacture and commercialize companion diagnostic assays may be significantly delayed and limited in scale, or may not occur at all. In addition, we do not know whether we will be able to enter into new collaborative arrangements with biopharmaceutical company customers on an independent basis. Any of these events could limit our diagnostic test sales and revenues and have a material adverse effect on our business, operating results and financial condition.

Public health epidemics, pandemics or outbreaks, including the recent coronavirus pandemic, could adversely affect our business.*

Our business, including our workforce, supply chain and customer base, may be adversely affected by the effects of health epidemics, including the COVID-19 pandemic. As a result of health epidemics, including COVID-19, businesses may be shut down, supply chains can be interrupted, slowed, or rendered inoperable, and individuals can become ill, quarantined, or otherwise unable to work and/or travel due to health reasons or governmental restrictions.

The COVID-19 pandemic has caused several countries to implement quarantines and/or significant restrictions on travel. In addition, affected regions, including several states within the United States, have implemented work restrictions that prohibit many

employees from going to work. Moreover, the COVID-19 pandemic has resulted in business closures and a substantial reduction in economic activity in the United States and worldwide.

While significant uncertainty remains as to the future impact of the COVID-19 pandemic on our operations, and on the global economy as a whole, the COVID-19 pandemic has had, and may continue to have, a negative impact on our product and product-related services revenue and collaborative development services revenue in 2020. We experienced a significant slowing of product and product-related services revenue generation beginning in March 2020 as a result of the COVID-19 pandemic, and we believe this period of reduced revenue will continue through at least the remainder of 2020 due to disruptions to our customers' businesses as a result of the pandemic. The extent of this impact is likely to vary from customer to customer depending upon how they are directly or indirectly impacted by local stay-at-home orders and other social distancing measures, priorities for the customers when the immediate impacts of the pandemic have passed, and the workforce and supplier impacts that each customer has experienced during the pandemic.

Beginning the week of March 16, 2020, substantially all of our workforce began working from home either all or substantially all of the time. The effects of the stay-at-home orders and our work-from-home policies may negatively impact productivity, disrupt our business and delay our development programs and regulatory timelines and negatively impact our commercial activities, the magnitude of which will depend, in part, on the length and severity of the restrictions and other limitations on our ability to conduct our business in the ordinary course. In addition, these widespread outbreaks of illness could adversely affect our workforce resulting in serious health issues and absenteeism.

It is also possible that the COVID-19 pandemic will also impact our workforce, supply chains or distribution networks or otherwise impact our ability to conduct sample processing services and custom assay design services and our ability to provide collaborative development services for companion diagnostic development programs. Governmental mandates may require forced shutdowns of our facilities for extended or indefinite periods. Pandemic outbreaks, including the coronavirus, could also substantially interfere with general commercial activity related to our supply chain and customer base, which could have a material adverse effect on our financial condition, results of operations, business or prospects. Restrictions resulting from the COVID-19 pandemic may disrupt our supply chains or distribution networks or limit our ability to obtain sufficient materials for our consumables or instruments and may disrupt our ability to process customer samples or perform collaborative development services. Further, to the extent our customers' businesses are adversely affected by the pandemic, they might delay or reduce purchases from us or collaborative development projects with us, which could adversely affect our results of operations.

The ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, our customers' businesses, healthcare systems or the global economy as a whole. However, these effects could have a material adverse impact on our operations, financial position and liquidity.

Our business operations might be disrupted or adversely affected by catastrophic events.

We manufacture our consumable products and our HTG EdgeSeq system and perform our RUO profiling and collaborative development services in our Tucson, Arizona facilities. In addition, our Tucson facilities are the center for order processing, receipt of critical components of our HTG EdgeSeq instrument and shipping products to customers. We do not have redundant facilities. Damage or the inability to utilize our Tucson facilities and the equipment we use to perform research, development or services and manufacture our products could be costly, and we would require substantial lead-time to repair or replace this facility and equipment. The Tucson facilities may be harmed or rendered inoperable by natural or man-made disasters, including flooding, wind damage, power spikes and power outages, which may render it difficult or impossible for us to perform these critical functions for some period of time. The inability to manufacture consumables or instruments, process customer samples, perform development services or ship products to customers for even a short period of time may result in the loss of customers or harm our reputation, and we may be unable to regain those customers in the future. Although we possess insurance for damage to our property and the disruption of our business, this insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all. In addition, natural disasters or other catastrophic events in various parts of the world, including interruptions in the supply of natural resources, political and governmental changes, disruption in transportation networks or delivery services, severe weather conditions, wildfires and other fires, explosions, actions of animal rights activists, terrorist attacks, earthquakes, wars and public health issues could disrupt our operations or those of our collaborators, contractors and vendors or contribute to unfavorable economic or other conditions that could adversely impact us.

Our financial results may vary significantly from quarter to quarter or may fall below the expectations of investors or securities analysts, each of which may adversely affect our stock price.*

Investors should consider our business and prospects considering the risks and difficulties we expect to encounter in the new, uncertain and rapidly evolving markets in which we compete. Because these markets are new and evolving, predicting their future growth and size is difficult. We expect that our visibility into future sales of our products, including volumes, prices and product mix between instruments, consumables and services, will continue to be limited and could result in unexpected fluctuations in our quarterly and annual operating results.

Numerous other factors, many of which are outside our control, may cause or contribute to significant fluctuations in our quarterly and annual operating results. For example, two customers accounted for 24% and 10% of our revenue for the three months ended September 30, 2020. In addition, two customers accounted for 30% and 13% of our accounts receivable balance as of September 30, 2020 and an additional two customers each accounted for 11% of our accounts receivable as of September 30, 2020. If orders from our top customers are discontinued and we are unable to establish new collaboration projects with biopharmaceutical companies, our revenue in future periods may materially decrease. In addition, we experienced a significant slowing of product and product-related services revenue generation beginning in March 2020 as a result of the COVID-19 pandemic, and we believe this period of reduced revenue will continue through at least the remainder of 2020 due to disruptions to our customers' businesses as a result of the pandemic. The extent of this impact is likely to vary from customer to customer depending upon how they are directly or indirectly impacted by local stay-at-home orders and other social distancing measures, priorities for the customers when the immediate impacts of the pandemic have passed, and the workforce and supplier impacts that each customer has experienced during the pandemic. Fluctuations in our operating results may make financial planning and forecasting difficult. In addition, these fluctuations may result in unanticipated decreases in our available cash, which could negatively affect our business and prospects. Factors that may contribute to fluctuations in our operating results include many of the risks described under the caption "Risk Factors – Risks Related to Our Business and Strategy" of this report. In addition, one or more of such factors may cause our revenue or operating expenses in one period to be disproportionately higher or lower relative to the others. Our products involve a significant capital commitment from our customers or may depend on customer studies that have variable or indefinite timelines and accordingly, involve a lengthy sales cycle. We may expend significant effort in attempting to make a particular sale, which may be deferred by the customer or never occur. Accordingly, comparing our operating results on a period-to-period basis may not be meaningful, and investors should not rely on our past results as an indication of our future performance. If such fluctuations occur or if our operating results deviate from our expectations or the expectations of investors or securities analysts, our stock price may be adversely affected.

Our sales cycle is lengthy and variable, which makes it difficult for us to forecast revenue and other operating results.*

Our sales process involves numerous interactions with multiple individuals within any given organization, and often includes in-depth analysis by potential customers of our products (where in some instances we will provide a demonstration unit for their use and evaluation), performance of proof-of-principle studies, preparation of extensive documentation and a lengthy review process. As a result of these factors, the capital investment required in purchasing our instrument and the budget cycles of our customers, the time from initial contact with a customer to our receipt of a purchase order can vary significantly and be up to 12 months or longer. Given the length and uncertainty of our sales cycle, we have in the past experienced, and likely will in the future experience, fluctuations in our product and product-related services revenue on a period-to-period basis. In addition, any failure to meet customer expectations could result in customers choosing to retain their existing systems or service providers or to purchase systems or services other than ours. The revenue that we expect to earn from our collaborative development services are also subject to an extended, variable timeline based on each project agreement, which will likely result in fluctuations in our collaborative development services revenue on a period-to-period basis as well. Our collaborative development services revenue is also likely to be impacted by the ongoing COVID-19 pandemic.

We may not be able to develop new products or enhance the capabilities of our systems to keep pace with rapidly changing technology and customer requirements, which could have a material adverse effect on our business and operating results.

Our success depends on our ability to develop new products and applications for our technology in existing and new markets, while improving the performance and cost-effectiveness of our systems. New technologies, techniques or products could emerge that might offer better combinations of price and performance than our current or future products and systems. Existing or future markets for our products, including gene expression analysis, liquid-based specimen analysis (e.g., plasma, blood and urine) and single-cell analysis, as well as potential markets for our diagnostic product candidates, are characterized by rapid technological change and innovation. It is critical to our success that we anticipate changes in technology and customer requirements and successfully introduce new, enhanced and competitive technologies to meet our customers' and prospective customers' needs on a timely and cost-effective basis. At the same time, however, we must carefully manage the introduction of new products. If customers believe that such products will offer enhanced features or be sold for a more attractive price, they may delay purchases until such products are available. We may also have excess or obsolete inventory of older products as we transition to new products and our experience in managing product transitions is very limited. If we do not successfully innovate and introduce new technology into our product lines or effectively manage the transitions to new product offerings, our revenues and results of operations will be adversely impacted.

Competitors may respond more quickly and effectively than we do to new or changing opportunities, technologies, standards or customer requirements. We anticipate that we will face increased competition in the future as existing companies and competitors develop new or improved products and as new companies enter the market with new technologies.

If we do not successfully manage the development and launch of new products, our financial results could be adversely affected.

We face risks associated with launching new products and with undertaking to comply with regulatory requirements for certain types of our products (i.e. IVDs). If we encounter development or manufacturing challenges, adjust our product development priorities, or discover deficiencies during our product development cycle, the product launch date(s) may be delayed or certain product development projects may be terminated. The expenses or losses associated with unsuccessful product development or launch activities or lack of market acceptance of our new products could adversely affect our business or financial condition.

Our future success is dependent upon our ability to expand our customer base and introduce new applications.

Our current customer base is primarily composed of biopharmaceutical companies (including those contracted by QML pursuant to the Governing Agreement), academic institutions and molecular labs that perform analyses using or directly or indirectly obtain services based on our HTG EdgeSeq system and consumables for research use only, which means that the products or data from services may not be used for clinical diagnostic purposes. In July 2016, we obtained CE marking in Europe for our HTG EdgeSeq system and HTG EdgeSeq DLBCL Cell of Origin Assay EU. In March 2017, we obtained CE marking in Europe for our HTG EdgeSeq ALKPlus Assay EU. These products may be used by customers for diagnostic purposes in Europe. Currently, we do not intend to and, where applicable, do not have appropriate licenses or permits to conduct diagnostic testing services. Our success will depend, in part, upon our ability to increase our market penetration among our customer bases and to expand our market by developing and marketing new companion diagnostic tests and RUO applications (whether product or service). We may not be able to successfully complete development of or commercialize any of our planned future tests and applications. To achieve these goals, we will need to conduct substantial research and development, conduct clinical validation studies, expend significant funds, expand and scale-up our research, development, service and manufacturing processes and facilities, enter into service and collaborative development services arrangements with biopharmaceutical company customers, expand and train our sales force; and seek and obtain regulatory clearance or approvals of our new tests and applications, as required by applicable regulations. Additionally, we must demonstrate to laboratory directors, physicians and third-party payors that our current and any future diagnostic products are effective in obtaining clinically relevant information that can inform treatment decisions, and that our HTG EdgeSeq system and related panels can enable an equivalent or superior approach than other available technology. Furthermore, we expect that a combination of increasing the installed base of our HTG EdgeSeq systems and entering into additional service and custom RUO assay design agreements with biopharmaceutical customers will drive increased demand for our relatively high margin panels. If we are not able to successfully increase our installed base and biopharmaceutical customer relationships, then sales of our products and services, and our margins for these revenue items may not meet expectations. Attracting new customers and introducing new products and services requires substantial time and expense. Any failure to expand our existing customer base, or launch new products, including diagnostic products or services, would adversely affect our ability to improve our operating results.

The development of future products is dependent on new methods and/or technologies that we may not be successful in developing.

We have initiated early development of a comprehensive whole transcriptome assay, which we are building for eventual clinical use and which we believe will serve as our anchor product not only for RUO profiling but also for our proprietary breast diagnostic products. In addition, we believe this product will serve as a universal CDx platform for gene expression profiling for our biopharmaceutical company customers. Moreover, we believe this product will allow us to expand our product offerings outside of oncology and autoimmune into markets such as transplant and diabetes. We cannot guarantee that we will be able to successfully develop a comprehensive whole transcriptome assay or that it will have the benefits that we anticipate. If we are unsuccessful at developing this assay or it does not provide the benefits that we anticipate, we may be limited in the breadth of additional products we can offer in the future, which could impact our future revenue and profits.

Our HTG EdgeSeq product portfolio requires the use of NGS instrumentation and reagents and could be adversely affected by actions of third-party NGS product manufacturers over whom we have no control.

A key element of our strategy is to establish our HTG EdgeSeq system as the best sample and library preparation method for clinical applications of next-generation sequencers. We depend at least in part on the availability of NGS instrumentation and reagents, and the ability of our HTG EdgeSeq products to operate seamlessly with NGS instrumentation. Any significant interruption or delay in the ability of our HTG EdgeSeq products to operate on or with NGS instrumentation could reduce demand for our products and result in a loss of customers.

Our reputation, and our ability to continue to establish or develop our technology for clinical applications of next-generation sequencers, are dependent upon the availability of NGS instrumentation and the reliable performance of our products with NGS instrumentation. We are not able to control the providers of NGS instrumentation, which increases our vulnerability to interoperability problems with the products that they provide. For example, providers of NGS instruments may discontinue existing products, or

introduce new NGS instrumentation products with little or no notice to us. This may cause some of our products not to be operable with one or more NGS instruments or may adversely affect regulatory approvals of our future IVD HTG EdgeSeq products, potentially for extended periods of time. Any interruption in the ability of our products to operate on NGS instruments could harm our reputation or decrease market acceptance of our products, and our business, financial condition and operating results may be materially and adversely affected. We also could experience additional expense in developing new products or changes to existing products to meet developments in NGS instrumentation, including fees charged by our development partners to access new technology, and our business, financial condition and operating results may be materially and adversely affected.

Current medical device regulation in the United States and other jurisdictions requires manufacturers of IVD molecular profiling tests that use NGS detection, referred to as NGS IVD tests, to include in regulatory submissions, technical information about the NGS products that are required for performance of, but are not supplied with, the NGS IVD test. These regulatory agencies also require that the NGS instrumentation have “locked” software for the detection of the NGS IVD test results. Thus, to obtain regulatory approval for NGS IVD tests, manufacturers like us, currently must have arrangements with NGS product manufacturers to gain access to technical information and NGS instrument software. We currently have agreements with two NGS product manufacturers that grant us rights to develop, manufacture and sell future HTG EdgeSeq NGS IVD tests in specified fields, subject to, among other things, the NGS product manufacturers’ rights to terminate such agreements and discontinue products or implement product design changes that could adversely affect our HTG EdgeSeq NGS IVD tests. There can be no assurance that our agreements with these NGS product manufacturers, or any future NGS product manufacturers that we contract with, will not be terminated earlier than we currently expect, that a NGS product manufacturer will perform its contractual duties to us, or that we will otherwise receive the benefits we anticipate receiving under those agreements. In addition, if regulatory agencies do not change their requirements for NGS IVD test approval or clearance and the NGS instrument manufacturers close their systems to third-party NGS IVD test development (in general or with specific NGS IVD test manufacturers) and we are not able to maintain or enforce our agreements with such manufacturers, we may not be able to meet our commercial goals and our business, financial condition and operating results may be materially and adversely affected.

If we do not achieve, sustain or successfully manage our anticipated growth, our business and growth prospects will be harmed.

Our current personnel, systems and facilities may not be adequate to support our business plan and future growth. Our need to effectively manage our operations, growth and various projects requires that we, among other things:

- continue to improve our operational, financial, management and regulatory compliance controls and reporting systems and procedures;
- attract and retain sufficient numbers of talented employees;
- manage our commercialization activities effectively and in a cost-effective manner;
- manage our relationship with third parties related to the commercialization of our products; and
- manage our development efforts effectively while carrying out our contractual obligations to contractors and other third parties.

Moreover, growth will place significant strains on our management and our operational and financial systems and processes. For example, expanded market penetration of our HTG EdgeSeq system and related proprietary panels, and future development and approval of diagnostic products, are key elements of our growth strategy that will require us to hire and retain additional sales and marketing, regulatory, manufacturing and quality assurance personnel. If we do not successfully forecast the timing and cost of the development of new panels and diagnostic products, the regulatory clearance or approval for product marketing of any future diagnostic products or the demand and commercialization costs of such products, or manage our anticipated expenses accordingly, our operating results will be harmed.

If regulatory limitations are placed on our products our business and growth will be harmed.*

In many jurisdictions, including the United States, we are currently limited to marketing our HTG EdgeSeq system and proprietary profiling panels for research use only, which means that we cannot make any diagnostic or clinical claims for those products in those jurisdictions.

We obtained the right to CE mark the HTG EdgeSeq DLBCL Cell of Origin Assay EU and the HTG EdgeSeq ALK*Plus* Assay EU for sale as IVDs in Europe, in July 2016 and March 2017, respectively. If we are unable to maintain CE marking or achieve appropriate ex-U.S. approvals on any of our products for their intended commercial uses on a timely basis or at all, or if clinical diagnostic laboratories or other customers outside the United States do not accept our tests, our ability to grow our business outside of the United States could be compromised.

Clinical studies of any product candidate that we intend to market as an IVD kit may not be successful. If we are unable to successfully complete non-clinical and clinical studies of our product candidates or experience significant delays in doing so, our business will be materially harmed.*

Our clinical diagnostic business prospects in the United States and other applicable jurisdictions will depend on our ability to successfully complete clinical studies for product candidates that we intend to market as IVD kits. A failure of one or more clinical studies can occur at any stage of testing. The outcome of non-clinical studies may not be predictive of the success of clinical studies, and interim results, if any, of a clinical study do not necessarily predict final results. Moreover, non-clinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in non-clinical and clinical studies have nonetheless failed to obtain premarketing clearance or approval for their products. Completion of clinical studies, announcement of results of the studies and our ability to obtain regulatory approvals could be delayed for a variety of reasons, including:

- unsatisfactory results of any clinical study, including failure to meet study objectives;
- the failure of our principal third-party investigators to perform our clinical studies on our anticipated schedules;
- imposition of a clinical hold following an inspection of our clinical study operations or trial sites by the FDA or other regulatory authorities;
- our inability to adhere to clinical study requirements directly or with third parties, such as contract research organizations;
- different interpretations of our non-clinical and clinical data, which could initially lead to inconclusive results;
- delays in obtaining suitable patient samples for use in a clinical study; and
- delays on patient enrollment due to the COVID-19 pandemic.

Our development costs will increase if we have material delays in any clinical study or if we need to perform more or larger clinical studies than planned. If the delays are significant, or if any of our products do not prove to be equivalent to a predicate device or safe or effective, as applicable, or do not receive required regulatory approvals, our financial results and the commercial prospects for our product candidates will be harmed. Furthermore, our inability to complete our clinical studies in a timely manner could jeopardize our ability to obtain regulatory approval.

Our strategy of developing companion diagnostic products may require large investments in working capital and may not generate any revenues.

A key component of our strategy is the development of companion diagnostic products designed to determine the appropriate patient population for administration of a particular therapeutic to more successfully treat a variety of illnesses. Prior to the termination of the Governing Agreement in November 2019, we had an exclusive arrangement with QML to develop certain companion diagnostic products for biopharmaceutical companies under the Governing Agreement. We may now choose to develop companion diagnostic products independently or with a collaboration partner. Successfully developing a companion diagnostic product depends both on regulatory approval for administration of the therapeutic, as well as regulatory approval of the associated diagnostic product. Even if we are successful in developing products that would be useful as companion diagnostic products, and potentially receive regulatory approval for such products, the biopharmaceutical companies that develop the corresponding therapeutics may ultimately be unsuccessful in obtaining regulatory approval for any such therapeutic, or, even if successful, select a competing technology to use in their regulatory submission instead of ours. The development, especially the independent development, of companion diagnostic products requires a significant investment of working capital, which may not result in any future income. This could require us to raise additional funds which could dilute our current investors or could impact our ability to continue our operations in the future.

We expect to generate a portion of our revenue internationally and are subject to various risks relating to our international activities, which could adversely affect our operating results.*

For the three and nine months ended September 30, 2020, 19% and 31% of our revenue was generated from sales originated by customers located outside of the United States, respectively, compared with 29% and 31% for three and nine months ended September 30, 2019, respectively. We expect that a percentage of our future revenue will continue to come from international sources, and we expect to expand our overseas operations and develop opportunities in additional areas. Engaging in international business involves a number of difficulties and risks, including:

- required compliance with existing and changing foreign regulatory requirements and laws;
- required compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act and U.K. Bribery Act, data privacy requirements, labor laws and anti-competition regulations;
- export and import restrictions;

- various reimbursement, pricing and insurance regimes;
- laws and business practices favoring local companies;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- political and economic instability;
- potentially adverse tax consequences, tariffs, customs charges, bureaucratic requirements and other trade barriers, including transfer pricing, value added and other tax systems, double taxation and restrictions and/or taxation on repatriation of earnings;
- tariffs, customs charges, bureaucratic requirements and other trade barriers;
- difficulties and costs of staffing and managing foreign operations, including difficulties and costs associated with foreign employment laws;
- increased financial accounting and reporting burdens and complexities; and
- difficulties protecting, procuring, or enforcing intellectual property rights, including from reduced or varied protection for intellectual property rights in some countries.

As we expand internationally our results of operations and cash flows will become increasingly subject to fluctuations due to changes in foreign currency exchange rates. Historically, most of our revenue has been denominated in U.S. dollars, although we have sold our products and services in local currency outside of the United States, principally the Euro. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United States. As our operations in countries outside of the United States grows, our results of operations and cash flows will increasingly be subject to fluctuations due to changes in foreign currency exchange rates, which could negatively impact our results of operations in the future. For example, if the value of the U.S. dollar increases relative to foreign currencies, in the absence of an offsetting change in local currency prices, our revenue could be adversely affected as we convert revenue from local currencies to U.S. dollars.

If we dedicate significant resources to our international operations and are unable to manage these risks effectively, our business, operating results and prospects will suffer. Moreover, we cannot be certain that the investment and additional resources required in establishing operations in other countries will produce desired levels of revenue or profitability.

In addition, any failure to comply with applicable legal and regulatory obligations could negatively impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments and restrictions on certain business activities.

If the utility of our HTG EdgeSeq system, proprietary profiling panels, services and solutions in development is not supported by studies published in peer-reviewed medical publications, the rate of adoption of our current and future products and the rate of reimbursement of our future products by third-party payors may be negatively affected.

We anticipate that we will need to maintain a continuing presence in peer-reviewed publications to promote adoption of our products by biopharmaceutical companies, academic institutions and molecular labs and to promote favorable coverage and reimbursement decisions. We believe that peer-reviewed journal articles that provide evidence of the utility of our current and future products or the technology underlying the HTG EdgeSeq system, consumables and services are important to our commercial success. It is critical to the success of our sales efforts that we educate a sufficient number of clinicians and administrators about our HTG EdgeSeq system, our current panels and services and our future solutions, and demonstrate the research and clinical benefits of these solutions. Our customers may not adopt our current and future solutions, and third-party payors may not cover or adequately reimburse our future products, unless they determine, based on published peer-reviewed journal articles and the experience of other researchers and clinicians, that our products provide accurate, reliable, useful and cost-effective information. Peer-reviewed publications regarding our products and solutions may be limited by many factors, including delays in the completion of, poor design of, or lack of compelling data from studies that would be the subject of the article. If our current and future product and product-related service solutions or the technology underlying such products and services do not receive sufficient favorable exposure in peer-reviewed publications, the rate of research and clinical adoption and positive coverage and reimbursement decisions could be negatively affected.

We may need to raise additional capital to fund our operations in the future. If we are unsuccessful in attracting new capital, we may not be able to continue operations or may be forced to sell assets to do so. Alternatively, capital may not be available to us on favorable terms, or if at all. If available, financing terms may lead to significant dilution of our stockholders' equity. *

We are not profitable and have had negative cash flow from operations since our inception. To fund our operations and develop and commercialize our products, we have relied primarily on equity and debt financings and revenue generated from the sale of our HTG EdgeSeq systems, proprietary consumables, related services and collaborative development service arrangements with biopharmaceutical company customers (directly or indirectly via the Governing Agreement). We currently anticipate that our cash and cash equivalents will be sufficient to enable us to fund our operations for at least the next 12 months. We may need to obtain additional funds to finance our operations in the future if our estimates of the amount of cash necessary to fund our operations and development and commercialization activities prove to be wrong, and we could spend our available financial resources much faster than we currently expect. These circumstances raise substantial doubt about our ability to continue as a going concern. Additional capital may not be available at such times or amounts as needed by us. Historically we have financed our business in part by access to the capital markets. General market conditions resulting from the ongoing issues arising from the COVID-19 pandemic, as well as market conditions affecting companies in the life sciences industry in general, may make it difficult for us to seek financing from the capital markets on attractive terms, or at all. Even if capital is available, it might be available only on unfavorable terms. Any additional equity or convertible debt financing into which we enter could be dilutive to our existing stockholders. Any future debt financing into which we enter may impose covenants upon us that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, repurchase our stock, make certain investments and engage in certain merger, consolidation or asset sale transactions. Any debt financing or additional equity that we raise may contain terms that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, we may need to relinquish rights to our technologies or our products, or grant licenses on terms that are not favorable to us. If access to sufficient capital is not available as and when needed, our business will be materially impaired, and we may be required to cease operations, curtail one or more product development or commercialization programs, or significantly reduce expenses, sell assets, seek a merger or joint venture partner, file for protection from creditors or liquidate all of our assets. Any of these factors could harm our operating results.

We provide our HTG EdgeSeq system and profiling panels free of charge or through other arrangements to customers or key opinion leaders through evaluation agreements or reagent rental programs, and these programs may not be successful in generating recurring revenue from sales of our systems and proprietary panels.

We sell our HTG EdgeSeq system and profiling panels under different arrangements to expand our installed base and facilitate the adoption of our platform.

In some instances, we provide equipment free of charge under evaluation agreements for a limited period of time to permit the user to evaluate the system for their purposes in anticipation of a decision to purchase the system. We retain title to the equipment under such arrangements unless the evaluator purchases the equipment, and in most cases, require evaluation customers to purchase a minimum quantity of consumables during the evaluation period.

When we place a system under a reagent rental agreement, we install equipment in the customer's facility without a fee and the customer agrees to purchase consumable products at a stated price over the term of the agreement. While some of these agreements did not historically contain a minimum purchase requirement, we have included a minimum purchase requirement in all current reagent rental agreements and will continue to do so in the future. We retain title to the equipment and such title is transferred to the customer at no additional charge at the end of the initial arrangement. The cost of the instrument under the agreement is expected to be recovered in the fees charged for consumables, to the extent sold, over the term of the agreement.

Other arrangements might include a research agreement whereby an academic collaborator agrees to provide biological samples in exchange for the use of an HTG EdgeSeq system at no cost in furtherance of the collaborator's professional goals and/or the educational or research objectives of an applicable institution.

Any of the foregoing arrangements could result in lost revenues and profit and potentially harm our long-term goal of achieving profitable operations. In addition, we require customers who receive systems that we continue to own to carry insurance sufficient to protect us against any equipment losses, we cannot guarantee that they will maintain such coverage, which may expose us to a loss of the value of the equipment in the event of any loss or damage.

There are instances where we provide our systems to key opinion leaders free of charge, to gather data and publish the results of their research to assist our marketing efforts. We have no control over some of the work being performed by these key opinion leaders, or whether the results will be satisfactory. It is possible that the key opinion leader may generate data that is unsatisfactory and could potentially harm our marketing efforts. In addition, customers may from time to time create negative publicity about their experience with our systems, which could harm our reputation and negatively affect market perception and adoption of our platform.

Placing our HTG EdgeSeq systems under evaluation agreements, under reagent rental agreements or with our key opinion leaders without receiving payment for the instruments could require substantial additional working capital to provide additional units for sale to our customers.

We face risks related to handling of hazardous materials and other regulations governing environmental safety.

Our operations are subject to complex and stringent environmental, health, safety and other governmental laws and regulations that both public officials and private individuals may seek to enforce. Our activities that are subject to these regulations include, among other things, our use of hazardous materials and the generation, transportation and storage of waste. We could discover that we or an acquired business is not in material compliance with these regulations. Existing laws and regulations may also be revised or reinterpreted, or new laws and regulations may become applicable to us, whether retroactively or prospectively, that may have a negative effect on our business and results of operations. It is also impossible to eliminate completely the risk of accidental environmental contamination or injury to individuals. In such an event, we could be liable for any damages that result, and any liability could exceed our resources or any applicable insurance coverage we may have, which events could adversely affect our business.

The life sciences research and diagnostic markets are highly competitive. We face competition from enhanced or alternative technologies and products, which could render our products and/or technologies obsolete. If we fail to compete effectively, our business and operating results will suffer.

We face significant competition in the life sciences research and diagnostics markets. We currently compete with both established and early stage life sciences research companies that design, manufacture and market instruments and consumables for gene expression analysis, liquid-based specimen analysis (e.g., plasma, blood and urine), single-cell analysis, PCR, digital PCR, other nucleic acid detection and additional applications. These companies use well-established laboratory techniques such as microarrays or qPCR as well as newer technologies such as next-generation sequencing. We believe our principal competitors in the life sciences research market are Agilent Technologies, Inc., ArcherDx, Inc., BioRad Laboratories, Fluidigm Corporation, Illumina, Inc., Abbott Molecular, Luminex Corporation, Affymetrix, Inc., NanoString Technologies, Inc., entities owned and controlled by QIAGEN N.V., Roche Diagnostics, a division of the Roche Group of companies, Personal Genome Diagnostics and Thermo Fisher Scientific, Inc. In addition, there are several other market entrants in the process of developing novel technologies for the life sciences market. One or more of our competitors could develop a product that is superior to a product we offer or intend to offer, or our technology and products may be rendered obsolete or uneconomical by advances in existing technologies.

Within the diagnostic market, there are competitors that manufacture systems for sales to hospitals and laboratories and other competitors that offer tests conducted through CLIA laboratories. We will also compete with commercial diagnostics companies. Most of our current competitors are either publicly traded, or are divisions of publicly traded companies, and enjoy a number of competitive advantages over us, including:

- greater name and brand recognition, financial and human resources;
- broader product lines;
- larger sales forces and more established distributor networks;
- substantial intellectual property portfolios;
- larger and more established customer bases and relationships; and
- better established, larger scale, and lower cost manufacturing capabilities.

We believe that the principal competitive factors in all of our target markets include:

- cost of capital equipment;
- cost of consumables and supplies;
- reputation among customers;
- innovation in product offerings;
- flexibility and ease-of-use;
- accuracy and reproducibility of results; and
- compatibility with existing laboratory processes, tools and methods.

We believe that additional competitive factors specific to the diagnostics market include:

- breadth of clinical decisions that can be influenced by information generated by tests;
- volume, quality, and strength of clinical and analytical validation data;
- availability of coverage and adequate reimbursement for testing services; and
- economic benefit accrued to customers based on testing services enabled by products.

Our products may not compete favorably, and we may not be successful in the face of increasing competition from new products and technologies introduced by our existing competitors or new companies entering our markets. In addition, our competitors may have or may develop products or technologies that currently or in the future will enable them to produce competitive products with greater capabilities or at lower costs than ours. Any failure to compete effectively could materially and adversely affect our business, financial condition and operating results.

Our current business depends on levels of research and development spending by academic and governmental research institutions and biopharmaceutical companies, a reduction in which could limit demand for our products and adversely affect our business and operating results.

Our revenue is currently derived from sales of our HTG EdgeSeq system and related proprietary panels, the design of custom RUO assays and sample processing for research applications to biopharmaceutical companies, academic institutions and molecular labs, predominantly in the United States and Europe, and collaborative development services. The demand for our products and services will depend in part upon the research and development budgets of these customers, which are impacted by factors beyond our control, such as:

- changes in government programs that provide funding to research institutions and companies;
- macroeconomic conditions and the political climate;
- changes in the regulatory environment;
- differences in budgetary cycles;
- market-driven pressures to consolidate operations and reduce costs; and
- market acceptance of relatively new technologies, such as ours.

We believe that any uncertainty regarding the availability of research funding may adversely affect our operating results and may adversely affect sales to customers or potential customers that rely on government funding. In addition, academic, governmental and other research institutions that fund research and development activities may be subject to stringent budgetary constraints that could result in spending reductions, reduced allocations or budget cutbacks, which could jeopardize the ability of these customers to purchase our products or services. Our operating results may fluctuate substantially due to reductions and delays in research and development expenditures by these customers. Any decrease in our customers' budgets or expenditures, or in the size, scope or frequency of capital or operating expenditures, could materially and adversely affect our business, operating results and financial condition.

As part of our current business model, we intend to seek to enter into strategic development collaborations and licensing arrangements with third parties to develop diagnostic tests.

We have relied, and expect to continue to rely, on strategic development collaborations and licensing agreements with third parties to develop or in-license technologies based on which products or services we may develop or offer. We have entered into agreements with third parties to facilitate or enable our development of assays, and ultimately diagnostic tests, to aid in the diagnosis of oncology diseases, such as breast cancer and melanoma, and other diseases. We intend to enter into additional similar agreements with life sciences companies, biopharmaceutical companies and other researchers for future diagnostic products. However, we cannot guarantee that we will enter into any additional agreements. In particular, our life sciences research or biopharmaceutical customers are not obligated to collaborate with us or license technology to us, and they may choose to develop diagnostic products themselves or collaborate with our competitors. Establishing development collaborations and licensing arrangements is difficult and time-consuming. Discussions may not lead to development collaborations or licenses on favorable terms, or at all. Potential collaborators or licensors may elect not to work with us based upon their assessment of our financial, regulatory or intellectual property position. To the extent that we enter new collaborative development or licensing agreements, they may never result in the successful development or commercialization of future tests or other products for a variety of reasons, including because our collaborators may not succeed in performing their obligations or may choose not to cooperate with us. We cannot control the amount and timing of our collaborators'

resources that will be devoted to performing their responsibilities under our agreements with them. Moreover, to the extent we agree to work exclusively with a party in a given area, our opportunities to collaborate with others would be limited. Even if we establish new relationships, they may never result in the successful development or commercialization of future tests or other products. Disputes with our collaborators could also impair our reputation or result in development delays, decreased revenues and litigation expenses.

Our research and development efforts will be hindered if we are not able to contract with third parties for access to archival patient samples.

Our future development of products for clinical indications will require access to archival patient samples for which data relevant to the clinical indication of interest is known. We rely on our ability to secure access to these archived patient samples, including FFPE tissue, plasma, serum, whole blood preserved in PAXgene, or various cytology preparations, together with the information pertaining to the clinical outcomes of the patients from which the samples were taken. Owners or custodians of relevant samples may be difficult to identify and/or identified samples may be of poor quality or limited in number or amount. Additionally, others compete with us for access to these samples for both research and commercial purposes. Even when an appropriate cohort of samples is identified, the process of negotiating access to these samples can be lengthy because it typically involves numerous parties and approval levels to resolve complex issues such as usage rights, institutional review board approval, privacy rights, publication rights, and intellectual property ownership. In addition, in some instances the cost to acquire samples can be prohibitively expensive. If we are not able to negotiate access to archived patient samples on a timely basis and on acceptable terms, or at all, or if our competitors or others secure access to these samples before us, our ability to research, develop and commercialize future products will be limited or delayed.

We are dependent on a single third-party supplier for a certain subcomponent of our systems and the loss of this supplier could harm our business.*

We currently rely on a single supplier to produce a subcomponent used in our HTG EdgeSeq processors. While we periodically forecast our needs for this subcomponent, our contract with this supplier, which may be a standard purchase order, does not commit them to carry inventory or make available any particular quantities, and the supplier may give other customers' needs higher priority than ours and we may not be able to obtain adequate supplies in a timely manner or on commercially reasonable terms. If we were to lose this supplier, we may not be able to identify or enter into agreements with alternative suppliers on a timely basis on acceptable terms, or at all. If we should encounter delays or difficulties in securing the quality and quantity of subcomponent we require for our processors, our supply chain would be interrupted which would adversely affect our sales. A loss of this supplier could significantly delay the delivery of our HTG EdgeSeq processor, which in turn would materially affect our ability to generate revenue. If any of these events occur, our business and operating results could be materially harmed.

We may encounter manufacturing difficulties that could impede or delay production of our HTG EdgeSeq systems.

We began manufacturing our HTG EdgeSeq system internally in 2016. We have limited experience with manufacturing the system and our internal manufacturing operations may encounter difficulties involving, among other things, scale-up of manufacturing processes, production efficiency and output, regulatory compliance, quality control and quality assurance, and shortages of qualified personnel. Any failure in our planned internal manufacturing operations could cause us to be unable to meet demand for these systems, delay the delivery of the system to customers, and harm our business relationships and reputation.

If we encounter difficulties in our planned internal manufacturing operations, we may need to engage a third-party supplier, provided we cannot be sure we will be able to do so in a timely manner, or at all, or on favorable terms.

Any of these factors could cause us to delay or suspend production of our HTG EdgeSeq system, entail unplanned additional costs and materially harm our business, results of operations and financial condition.

We rely on distributors for sales of our products in several markets outside of the United States.*

We have established exclusive and non-exclusive distribution agreements for our HTG EdgeSeq system and related profiling panels within parts of Europe and the Middle East. We intend to continue to grow our business internationally, and to do so, in addition to expanding our own direct sales and support team, we plan to attract additional distributors and sales partners to maximize the commercial opportunity for our products. We cannot guarantee that we will be successful in attracting desirable distribution and sales partners or that we will be able to enter into such arrangements on favorable terms. Distributors and sales partners may not commit the necessary resources to market and sell our products to the level of our expectations or may favor marketing the products of our competitors. If current or future distributors or sales partners do not perform adequately, or we are unable to enter into effective arrangements with distributors or sales partners in particular geographic areas, we may not realize long-term international revenue growth.

Limitations in the use of our products could harm our reputation or decrease market acceptance of our products; undetected errors or defects in our products could harm our reputation, decrease market acceptance of our products or expose us to product liability claims.

Our products are subject to the limitations set forth in the product labeling, which may not satisfy the needs of all customers. For example, in the past we have introduced new panels that initially were intended to be used with specific sample types. Because our customers desire that our panels be broadly applicable to many biological sample types, these initial limitations could harm our reputation or decrease market acceptance of our products. If that occurs, we may incur significant costs, the attention of our key personnel could be diverted, or other significant customer relations problems may arise, which could harm our business and operating results.

Similarly, our products may contain undetected errors or defects when first introduced or as new versions are released. Since our current customers use our products for research and, if cleared or approved for diagnostic applications, disruptions or other performance problems with our products may damage our customers' businesses and could harm our reputation. If that occurs, we may incur significant costs, the attention of our key personnel could be diverted, or other significant customer relations problems may arise. We may also be subject to warranty and liability claims for damages related to errors or defects in our products. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our products could harm our business and operating results.

The sale and use of products or services based on our technologies, or activities related to our research and clinical studies, could lead to the filing of product liability claims if someone were to allege that one of our products contained a design or manufacturing defect which resulted in the failure to adequately perform the analysis for which it was designed. A product liability claim could result in substantial damages and be costly and time consuming to defend, either of which could materially harm our business or financial condition. We cannot assure investors that our product liability insurance could adequately protect our assets from the financial impact of defending a product liability claim. Any product liability claim brought against us, with or without merit, could increase our product liability insurance rates or prevent us from securing insurance coverage in the future.

Payments under the instruments governing our indebtedness may reduce our working capital. In addition, a default under our Silicon Valley Bank Term Loan or cross default under our PPP loan could cause a material adverse effect on our financial position.*

Pursuant to the terms of an asset purchase agreement with NuvoGen, we agreed to annually pay NuvoGen the greater of \$400,000 or 6% of our yearly revenue until the total aggregate cash compensation paid to NuvoGen under the agreement equals \$15.0 million. To date, we have paid NuvoGen approximately \$10.0 million. Payments to NuvoGen will result in a reduction in our working capital as we continue to make payments on this obligation.

The SVB Term Loan requires us, and any debt arrangements we may enter into in the future may require us, to comply with various covenants that limit our ability to, among other things:

- dispose of assets;
- complete mergers or acquisitions;
- incur indebtedness or modify existing debt agreements;
- amend or modify certain material agreements;
- engage in additional lines of business;
- encumber assets;
- pay dividends or make other distributions to holders of our capital stock;
- make specified investments; and
- engage in transactions with our affiliates.

These restrictions could inhibit our ability to pursue our business strategies. If we default under our obligations under the SVB Term Loan, the lender could proceed against the collateral granted to them to secure our indebtedness or declare all obligation under the SVB Term Loan to be due and payable. In certain circumstances, procedures by the lender could result in a loss by us of all of our equipment and inventory, which are included in the collateral granted to the lender. Our intellectual property is not included in the collateral granted to the lender but is subject to a negative pledge. In addition, upon any distribution of assets pursuant to any liquidation, insolvency, dissolution, reorganization or similar proceeding, the holders of secured indebtedness will be entitled to receive payment in full from the proceeds of the collateral securing our secured indebtedness before the holders of other indebtedness or our common stock will be entitled to receive any distribution with respect thereto.

Pursuant to the terms of our PPP Loan, we are required to make 14 equal monthly payments of principal and interest of any

amounts that are not forgiven. All or a portion of the PPP Loan may be forgiven by the SBA upon its acceptance of our application and documentation of expenditures in accordance with the SBA requirements. Under the CARES Act and PPP Flexibility Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments and covered utilities during the 24-week period beginning on the date of loan approval at the borrower's option. Not more than 40% of the forgiven amount may be for non-payroll costs. The amount of the PPP Loan eligible to be forgiven will be reduced if our full-time headcount declines, or if salaries and wages for employees with salaries of \$100,000 or less annually are reduced by more than 25% during the measurement period, unless certain safe harbors are met. We will be required to repay any portion of the outstanding principal and interest that is not forgiven, along with accrued interest, in accordance with the amortization schedule described above, and we cannot provide any assurance that we will be eligible for loan forgiveness or that any amount of the PPP Loan will ultimately be forgiven by the SBA.

In order to apply for the PPP Loan, we were required to certify that, among other things, the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. While we made this certification in good faith after analyzing, among other things, our financial situation and access to alternative forms of capital, and believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan is consistent with the broad objectives of the Paycheck Protection Program of the CARES Act, the certification described above does not contain any objective criteria and is subject to interpretation. In addition, the SBA has issued guidance stating that it is unlikely that a public company with substantial market value and access to capital markets will be able to make the required certification in good faith. The lack of clarity regarding loan eligibility under the Paycheck Protection Program has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. In addition, PPP loans under the CARES Act may be subject to certain rules, regulations and Standard Operating Procedures ("SOPs") applicable to the SBA's Section 7(a) Loan Program, which includes PPP loans under the CARES Act. The interpretation and applicability of these rules, regulations and SOPs is unclear, as some of them have not been referenced in the CARES Act itself or in the guidance and interpretations issued by the SBA to date. If, despite our good-faith belief that we satisfied all eligible requirements for the PPP Loan, we are found to be in violation of any of the laws or governmental regulations that apply to us in connection with the PPP Loan, including the False Claims Act, or it is otherwise determined that we were not eligible to receive the PPP Loan, or it is determined that the Company has not adequately complied with the rules, regulations and SOPs applicable to the SBA's Section 7(a) Loan Program, we may be subject to penalties, including significant civil, criminal and administrative penalties and could be required to repay the PPP Loan in its entirety, which would have an impact on our liquidity. In addition, our receipt of the PPP Loan may result in adverse publicity and damage to our reputation, and a review or audit by the SBA or other government entity or claims under the False Claims Act could consume significant financial and management resources. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

Changes in tax laws or regulations that are applied adversely to us or our customers may have a material adverse effect on our business, cash flow, financial condition or results of operations.*

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, which could adversely affect our business operations and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. For example, legislation enacted in 2017, informally titled the Tax Cuts and Jobs Act (the "Tax Act"), enacted many significant changes to the U.S. tax laws. Future guidance from the Internal Revenue Service and other tax authorities with respect to the Tax Act may affect us, and certain aspects of the Tax Act could be repealed or modified in future legislation. For example, the CARES Act modified certain tax provisions of the Tax Act. In addition, it is uncertain if and to what extent various states will conform to the Tax Act, the CARES Act or any newly enacted federal tax legislation. Changes in corporate tax rates, the realization of net deferred tax assets relating to our operations, the taxation of foreign earnings, and the deductibility of expenses under the Tax Act or future reform legislation could have a material impact on the value of our deferred tax assets, could result in significant one-time charges, and could increase our future U.S. tax expense.

Our ability to use net operating loss carryforwards and certain other tax attributed may be limited.*

As of December 31, 2019, we had federal net operating loss carryforwards ("NOLs") to offset future taxable income of \$158.2 million, of which \$121.8 million will begin to expire after 2021 if not utilized, while the remainder can be carried forward indefinitely. A lack of future taxable income would adversely affect our ability to utilize these NOLs. Under the Tax Act, as modified by the CARES Act, our federal NOLs incurred in tax years beginning after December 31, 2017 may be carried forward indefinitely but the deductibility of these federal NOLs is limited to 80% of taxable income, unless utilized in 2018, 2019, or 2020, in which case use of the NOLs is not limited. It is uncertain if and to what extent various states will conform to the Tax Act or the CARES Act. In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "IRC"), and corresponding provisions of state law, a corporation that undergoes an "ownership change" (generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period) is subject to limitations on its ability to utilize its pre-ownership change NOL carryforwards and certain other pre-ownership change tax attributes to offset post-ownership change income or taxes. We believe we may have already experienced one or more ownership changes and may in the future experience one or more additional ownership changes, and thus, our ability to utilize pre-ownership change NOL carryforwards and other pre-ownership change tax attributes to offset post-ownership change income or taxes may be limited. Such limitations may cause a portion of our NOL and credit carryforwards to expire before we are able to utilize them. In addition, at the state level, there may be periods during which the use of NOL carryforwards is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. We have recorded a full valuation allowance related to our NOLs and other deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

Acquisitions or joint ventures could disrupt our business, cause dilution to our stockholders and otherwise harm our business.

We may acquire other businesses, products or technologies as well as pursue strategic alliances, joint ventures, technology licenses or investments in complementary businesses. We have limited experience with respect to business, product or technology acquisitions or the formation of collaborations, strategic alliances and joint ventures or investing in complementary businesses. Any of these transactions could be material to our financial condition and operating results and expose us to many risks, including:

- disruption in our relationships with customers, distributors or suppliers as a result of such a transaction;
- unanticipated liabilities related to acquired companies;
- difficulties integrating acquired personnel, technologies and operations into our existing business;
- diversion of management time and focus from operating our business to acquisition integration challenges;
- increases in our expenses and reductions in our cash available for operations and other uses; and
- possible write-offs or impairment charges relating to acquired businesses.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. Also, the anticipated benefit of any acquisition may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses or write-offs of goodwill, any of which could harm our financial condition. We cannot predict the number, timing or size of future joint ventures or acquisitions, or the effect that any such transactions might have on our operating results.

If any members of our management team were to leave us or we are unable to recruit, train and retain key personnel, we may not achieve our goals.

Our future success depends on our ability to recruit, train, retain and motivate key personnel, including our senior management, research and development, manufacturing, service and sales and marketing personnel. If we were to lose one or more of our key employees, we may experience difficulties in competing effectively, developing our technologies and implementing our business strategies. Competition for qualified personnel is intense, and we may not be able to attract talent. Our growth depends, in part, on attracting, retaining and motivating highly trained sales personnel with the necessary scientific background and ability to understand our systems at a technical level to effectively identify and sell to potential new customers, including new biopharmaceutical company customers. In particular, the commercialization of our HTG EdgeSeq system and related panels requires us to continue to establish and maintain sales and support teams to optimize the markets for research tools and, where approved, diagnostic assays, and to fully optimize a broad array of diagnostic market opportunities as we receive approval for any future diagnostic products. We do not maintain fixed term employment contracts or key man life insurance relating to any of our employees. Because of the complex and technical nature of our products and the dynamic market in which we compete, any failure to retain our management team or to attract, train, retain and motivate other qualified personnel could materially harm our operating results and growth prospects.

Our operating results may be harmed if we are required to collect sales, services or other related taxes for our products and services in jurisdictions where we have not historically done so.

We do not believe that we are required to collect sales, use, services or other similar taxes from our customers in certain jurisdictions. However, one or more countries or states may seek to impose sales, use, services, or other tax collection obligations on us, including for past sales. A successful assertion by one or more jurisdictions that we should collect sales or other taxes on the sale of our products and services could result in substantial tax liabilities for past sales and decrease our ability to compete for future sales. Each country and each state has different rules and regulations governing sales and use taxes and these rules and regulations are subject to varying interpretations that may change over time. We review these rules and regulations periodically and, when we believe sales and use taxes apply in a particular jurisdiction, voluntarily engage tax authorities in order to determine how to comply with their rules and regulations. We cannot assure you that we will not be subject to sales and use taxes or related penalties for past sales in jurisdictions where we presently believe sales and use taxes are not due.

Providers of goods or services are typically held responsible by taxing authorities for the collection and payment of any applicable sales and similar taxes. If one or more taxing authorities determines that taxes should have, but have not, been paid with respect to our products and services, we may be liable for past taxes in addition to being required to collect sales or similar taxes in respect of our products and services going forward. Liability for past taxes may also include substantial interest and penalty charges. Our customer contracts provide that our customers must pay all applicable sales and similar taxes. Nevertheless, customers may be reluctant to pay back taxes and may refuse responsibility for interest or penalties associated with those taxes or we may determine that it would not be feasible to seek reimbursement. If we are required to collect and pay back taxes and the associated interest and penalties and if our customers do not reimburse us for all or a portion of these amounts, we will have incurred unplanned expenses that may be substantial. Moreover, imposition of such taxes on our products and services going forward will effectively increase the cost of such products and services to our customers.

Many states are also pursuing legislative expansion of the scope of goods and services that are subject to sales and similar taxes as well as the circumstances in which a vendor of goods and services must collect such taxes. Furthermore, legislative proposals have been introduced in Congress that would provide states with additional authority to impose such taxes. Accordingly, it is possible that either federal or state legislative changes may require us to collect additional sales and similar taxes from our customers in the future.

Our insurance policies are expensive and protect us only from some business risks, which may leave us exposed to significant uninsured liabilities.

We do not carry insurance for all categories of risk that our business may encounter. Some of the policies we currently maintain include general liability, foreign liability, employee benefits liability, property, automobile, umbrella, workers' compensation, crime (including cybercrime), fiduciary, products liability, pollution, errors and omissions and directors' and officers' insurance. We do not know, however, if we will be able to maintain existing insurance with adequate levels of coverage. Any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our cash position and results of operations.

Performance issues, service interruptions or price increases by our shipping carriers could adversely affect our business and harm our reputation and ability to provide our services on a timely basis.

Expedited, reliable shipping is essential to our operations. We rely heavily on providers of transport services for reliable and secure point-to-point transport of our HTG EdgeSeq systems and consumables to our customers and, as applicable, customers' samples to our laboratory, and for enhanced tracking of these shipments. Should a carrier encounter delivery performance issues such as loss, damage or destruction of any instrumentation, consumables or samples, it would be costly to replace such instrumentation or consumables in a timely manner and may be difficult to replace customers' samples lost or damaged in shipping, and such occurrences may damage our reputation and lead to decreased demand for our products and increased cost and expense to our business. In addition, any significant increase in shipping rates could adversely affect our operating margins and results of operations. Similarly, strikes, severe weather, natural disasters or other service interruptions affecting delivery services we use would adversely affect our ability to process orders for our products or receive recipient samples on a timely basis.

Changes in funding for the FDA, the SEC and other government agencies could hinder their ability to hire and retain key leadership and other personnel, prevent new products and services from being developed or commercialized in a timely manner or otherwise prevent those agencies from performing normal functions on which the operation of our business may rely, which could negatively impact our business.

The ability of the FDA to review and approve new products can be affected by a variety of factors, including government budget and funding levels, ability to hire and retain key personnel and accept payment of user fees, and statutory, regulatory, and policy changes. Average review times at the agency have fluctuated in recent years as a result. In addition, government funding of the SEC and other government agencies on which our operations may rely, including those that fund research and development activities is subject to the political process, which is inherently fluid and unpredictable.

Disruptions at the FDA and other agencies may also slow the time necessary for new drugs or diagnostic products to be reviewed and/or approved by necessary government agencies, which would adversely affect our business. For example, over the last several years, the U.S. government has shut down several times and certain regulatory agencies, such as the FDA and the SEC, have had to furlough critical FDA, SEC and other government employees and stop critical activities. If a prolonged government shutdown occurs, it could significantly impact the ability of the FDA to timely review and process our regulatory submissions, which could have a material adverse effect on our business. Further, future government shutdowns could impact our ability to access the public markets and obtain necessary capital in order to properly capitalize and continue our operations.

The withdrawal of the United Kingdom, from the European Union, commonly referred to as “Brexit,” may adversely impact our ability to obtain regulatory approvals of our product candidates in the European Union, result in restrictions or imposition of taxes and duties for importing our product candidates into the European Union, and may require us to incur additional expenses in order to develop, manufacture and commercialize our product candidates in the European Union.

Following the result of a referendum in 2016, the United Kingdom left the European Union on January 31, 2020, commonly referred to as Brexit. Pursuant to the formal withdrawal arrangements agreed between the United Kingdom and the European Union, the United Kingdom will be subject to a transition period until December 31, 2020, or the Transition Period, during which EU rules will continue to apply. Negotiations between the United Kingdom and the European Union are expected to continue in relation to the customs and trading relationship between the United Kingdom and the European Union following the expiry of the Transition Period.

Since a significant proportion of the regulatory framework in the United Kingdom applicable to our business and our product candidates is derived from EU directives and regulations, Brexit, following the Transition Period, could materially impact the regulatory regime with respect to the development, manufacture, importation, approval and commercialization of our product candidates in the United Kingdom or the European Union. For example, as a result of the uncertainty surrounding Brexit, the EMA relocated to Amsterdam from London. Following the Transition Period, the United Kingdom will no longer be covered by the centralized procedures for obtaining EU-wide marketing authorization from the EMA and, unless a specific agreement is entered into, a separate process for authorization of drug products, including our product candidates, will be required in the United Kingdom, the potential process for which is currently unclear. Any delay in obtaining, or an inability to obtain, any marketing approvals, as a result of Brexit or otherwise, would prevent us from commercializing our product candidates in the United Kingdom or the European Union and restrict our ability to generate revenue and achieve and sustain profitability. In addition, we may be required to pay taxes or duties or be subjected to other hurdles in connection with the importation of our product candidates into the European Union, or we may incur expenses in establishing a manufacturing facility in the European Union in order to circumvent such hurdles. If any of these outcomes occur, we may be forced to restrict or delay efforts to seek regulatory approval in the United Kingdom or the European Union for our product candidates, or incur significant additional expenses to operate our business, which could significantly and materially harm or delay our ability to generate revenues or achieve profitability of our business. Any further changes in international trade, tariff and import/export regulations as a result of Brexit or otherwise may impose unexpected duty costs or other non-tariff barriers on us. These developments, or the perception that any of them could occur, may significantly reduce global trade and, in particular, trade between the impacted nations and the United Kingdom.

Cyber security risks and the failure to maintain the confidentiality, integrity and availability of our data, computer hardware, software, internet applications and related tools and functions could result in damage to our reputation and/or subject us to costs, fines, penalties, lawsuits or otherwise adversely affect our business.*

Our business requires manipulating, analyzing and storing large amounts of data. In addition, we rely on an enterprise software system to operate and manage our business. We also maintain personally identifiable information about our employees and others. Our business therefore depends on the continuous, effective, reliable and secure operation of our data, computer hardware, software, networks, Internet servers and related infrastructure including those of our collaborators, service providers and contractors. To the extent that our hardware and software malfunction or access to our data is interrupted or otherwise compromised, our business could suffer. The integrity and protection of our data is critical to our business and relevant stakeholders have a high expectation that we will adequately protect their personal data. The regulatory environment governing information, security and privacy laws is increasingly demanding and continues to evolve. Maintaining compliance with applicable security and privacy regulations may increase our operating costs. Although we have implemented physical, technical and administrative safeguards designed to protect our data, information technology systems and communications software, we are still vulnerable to natural or man-made hazards, such as natural disasters, fire, storm, flood, power loss, wind damage, terrorism, war, telecommunications failures, physical or software break-ins, inadvertent acts, malicious intrusion, malware, viruses and similar events. These events may result in damage to or the impairment of key business processes, or the loss or corruption of confidential information, including intellectual property, proprietary business information and personal data. Such disruptions and breaches of security could have a material adverse effect on our business, financial condition and results of operations. The costs to us to mitigate network security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant. We have experienced specific instances of cyber events, including attempted compromises, in the past, and there could be unauthorized access, acquisition, disclosure and use of non-public information (including personal data) in the future. The techniques used by criminal elements to attack information technology systems are sophisticated, change frequently and may originate from less regulated and remote areas of the world. As a result, we may not be able to address these techniques proactively or implement adequate preventative measures. If our data or information technology systems (or those of third parties upon which we rely) are compromised, we could be subject to reputational damage, fines, penalties, damages, litigation and enforcement actions, and we could lose trade secrets, the occurrence of which could harm our business. In addition, such a compromise may require notification to governmental agencies, supervisory bodies, credit reporting agencies, the media or individuals pursuant to contract or various federal, state and foreign data protection, privacy and security laws, regulations and guidelines, if applicable.

Changes in and failures to comply with U.S. and foreign privacy and data protection laws, regulations and standards may adversely affect our business, operations and financial performance.*

We are subject to or affected by numerous federal, state and foreign laws and regulations, as well as regulatory guidance, governing the collection, use, disclosure, retention, and security of personal data, such as information that we collect about employees and patients in the United States and abroad. The global data protection landscape is rapidly evolving, and implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future. This evolution may create uncertainty in our business, affect our or our collaborators', service providers' and contractors' ability to operate in certain jurisdictions or to collect, store, transfer use and share personal data, necessitate the acceptance of more onerous obligations in our contracts, result in liability or impose additional costs on us. The cost of compliance with these laws, regulations and standards is high and is likely to increase in the future. Any failure or perceived failure by us or our collaborators, service providers and contractors to comply with federal, state or foreign laws or regulation, our internal policies and procedures or our contracts governing processing of personal data could result in negative publicity, diversion of management time and effort and proceedings against us by governmental entities or others. In many jurisdictions, enforcement actions and consequences for noncompliance are rising.

In the United States, California adopted the California Consumer Privacy Act ("CCPA"), which became effective in January 2020. The CCPA establishes a privacy framework for covered businesses, including an expansive definition of personal information and data privacy rights for California residents. The CCPA includes a framework with potentially severe statutory damages and private rights of action. It remains unclear how the CCPA will be interpreted, but as currently written, it may impact our business activities and exemplifies the vulnerability of our business to the evolving regulatory environment related to personal data. As we expand our operations, the CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. Other states are beginning to propose similar laws.

Our operations abroad may also be subject to increased scrutiny or attention from data protection authorities. Many countries in these regions have established or are in the process of establishing privacy and data security legal frameworks with which we, our collaborators, service providers and contractors must comply. For example, the EU has adopted the General Data Protection Regulation (EU) 2016/679 ("GDPR"), which went into effect in May 2018 and introduces strict requirements for processing the personal data of individuals in the EU. The GDPR has and will continue to increase compliance burdens on us, including by mandating potentially burdensome documentation requirements and granting certain rights to individuals to control how we collect, use, disclose, retain and process information about them. The processing of sensitive personal data, such as health information, may impose heightened compliance burdens under the GDPR and is a topic of active interest among foreign regulators. In addition, the GDPR provides for more robust regulatory enforcement and fines of up to €20 million or 4% of the annual global revenue of the noncompliant company, whichever is greater. As we expand into other foreign countries and jurisdictions, we may be subject to additional laws and regulations that may affect how we conduct business. Further, the UK's decision to leave the EU, often referred to as Brexit, has created uncertainty with regard to the regulation of data protection in the UK, including with respect to whether laws or regulations will apply to us consistent with the GDPR in the future and how data transfers to and from the UK will be regulated.

European data protection laws, including the GDPR, generally restrict the transfer of personal data from Europe, including the European Economic Area, United Kingdom and Switzerland, to the United States and most other countries unless the parties to the transfer have implemented specific safeguards to protect the transferred personal data. One of the primary safeguards allowing U.S. companies to import personal data from Europe has been certification to the EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield frameworks administered by the U.S. Department of Commerce. However, the Court of Justice of the European Union recently invalidated the EU-U.S. Privacy Shield. The same decision also raised questions about whether one of the primary alternatives to the EU-U.S. Privacy Shield, namely, the European Commission's Standard Contractual Clauses, can lawfully be used for personal data transfers from Europe to the United States or most other countries. At present, there are few, if any, viable alternatives to the EU-U.S. Privacy Shield and the Standard Contractual Clauses. Authorities in the United Kingdom and Switzerland, whose data protection laws are similar to those of the European Union, may similarly invalidate use of the EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield, respectively, as mechanisms for lawful personal data transfers from those countries to the United States. As such, if we are unable to rely valid data transfer solution for personal data transfers for Europe, we will face increased exposure to substantial fines under European data protection laws as well as injunctions against processing personal data from Europe. Inability to import personal data from the European Economic Area, United Kingdom or Switzerland may also restrict our activities in Europe; limit our ability to collaborate with service providers, contractors and other companies subject to European data protection laws; and require us to increase our data processing capabilities in Europe at significant expense. Additionally, other countries outside of Europe have enacted or are considering enacting similar cross-border data transfer restrictions and laws requiring local data residency, which could increase the cost and complexity of delivering our services and operating our business.

Compliance with these and any other applicable privacy and data security laws and regulations is a rigorous and time-intensive process, and we may be required to put in place additional mechanisms to ensure compliance with the new data protection rules. If we

fail to comply with any such laws or regulations, we may face significant fines and penalties (including changes in our data practices), claims for damages, reputational damage all of which could adversely affect our business, financial condition, results of operations and growth prospects. Furthermore, the laws are not consistent, and compliance in the event of a widespread data breach is costly.

We publish privacy policies and other documentation regarding our collection, processing, use and disclosure of personal data and/or other confidential information. Although we endeavor to comply with our published policies and documentation, we may at times fail to do so or may be perceived to have failed to do so. Moreover, despite our efforts, we may not be successful in achieving compliance if our employees or vendors do not comply with our published policies and documentation. Such failures can subject us to potential foreign, local, state and federal action if they are found to be deceptive, unfair, or misrepresentative of our actual practices.

Risks Related to Government Regulation and Diagnostic Product Reimbursement

Approval and/or clearance by the FDA and foreign regulatory authorities for any diagnostic tests will take significant time and require significant research, development and clinical study expenditures and ultimately may not succeed.*

Before we begin to label and market our products for use as clinical diagnostics in the United States, including as companion diagnostics, unless an exemption applies, we will be required to obtain either 510(k) clearance or PMA from the FDA. In addition, we may be required to seek FDA clearance or approval for any changes or modifications to our products that could significantly affect their safety or effectiveness or would constitute a change in intended use. The PMA and 510(k) clearance processes can be expensive, time-consuming and uncertain. In addition to the time required to conduct clinical studies, if necessary, it generally takes from four to twelve months from submission of an application to obtain 510(k) clearance, and nine to 18 months for a PMA; however, it may take longer and 510(k) clearance or PMA approval may never be obtained. Even if the FDA accepts a 510(k) or PMA submission for filing, the FDA may request additional information or clinical studies during its review. Our ability to obtain additional regulatory clearances or approvals for new products and indications may be significantly delayed or may never be obtained. The requirements of the more rigorous PMA process could delay product introductions and increase the costs associated with FDA compliance. As with all IVD products, the FDA reserves the right to redefine the regulatory path at the time of submission or during the review process and could require a more burdensome approach. Even if we were to obtain regulatory approval or clearance, it may not be for the uses we believe are important or commercially attractive, in which case we would not be permitted to market our product for those uses.

A 510(k) clearance or PMA submission for any future medical device product would likely place substantial restrictions on how the device is marketed or sold, and we will be required to continue to comply with extensive regulatory requirements, including, but not limited to Quality System Regulations (“QSRs”), registering manufacturing facilities, listing the products with the FDA, and complying with labeling, marketing, complaint handling, adverse event and medical device reporting requirements and corrections and removals. We cannot assure you that we will successfully maintain the clearances or approvals we may receive in the future. In addition, any clearances or approvals we obtain may be revoked if any issues arise that bring into question our products’ safety or effectiveness. Any failure to maintain compliance with FDA regulatory requirements could harm our business, financial condition and results of operations.

Sales of our diagnostic products outside the United States will be subject to foreign regulatory requirements governing clinical studies, vigilance reporting, marketing approval, manufacturing, product licensing, pricing and reimbursement. These regulatory requirements vary greatly from country to country. As a result, the time required to obtain approvals outside the United States may differ from that required to obtain FDA approval and we may not be able to obtain foreign regulatory approvals on a timely basis or at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other countries or by the FDA and foreign regulatory authorities could require additional testing. In addition, the FDA regulates exports of medical devices. Failure to comply with these regulatory requirements or obtain required approvals could impair our ability to commercialize our diagnostic products outside of the United States.

Our research use only products for the life sciences market could become subject to regulation as medical devices by the FDA or other regulatory agencies in the future, which could increase our costs and delay our commercialization efforts, thereby materially and adversely affecting our life sciences business and results of operations.

In the United States, our products are currently labeled and sold for research use only, and not for the diagnosis or treatment of disease, and are sold to a variety of parties, including biopharmaceutical companies, academic institutions and molecular labs. Because such products are not intended for use in clinical practice in diagnostics, and the products cannot include clinical or diagnostic claims, they are exempt from many regulatory requirements otherwise applicable to medical devices. In particular, while the FDA regulations require that RUO products be labeled, “For Research Use Only. Not for use in diagnostic procedures,” the regulations do not otherwise subject such products to the FDA’s pre- and post-market controls for medical devices.

A significant change in the laws governing RUO products or how they are enforced may require us to change our business model in order to maintain compliance. For instance, in November 2013 the FDA issued a guidance document entitled “Distribution of In Vitro Diagnostic Products Labeled for Research Use Only or Investigational Use Only” (the “RUO Guidance”) which highlights the FDA’s interpretation that distribution of RUO products with any labeling, advertising or promotion that suggests that clinical laboratories can validate the test through their own procedures and subsequently offer it for clinical diagnostic use as a laboratory developed test is in conflict with RUO status. The RUO Guidance further articulates the FDA’s position that any assistance offered in performing clinical validation or verification, or similar specialized technical support, to clinical laboratories, conflicts with RUO status. If we engage in any activities that the FDA deems to be in conflict with the RUO status held by the products that we sell, we may be subject to immediate, severe and broad FDA enforcement action that would adversely affect our ability to continue operations. Accordingly, if the FDA finds that we are distributing our RUO products in a manner that is inconsistent with its regulations or guidance, we may be forced to stop distribution of our RUO tests until we are in compliance, which would reduce our revenues, increase our costs and adversely affect our business, prospects, results of operations and financial condition. In addition, the FDA’s proposed implementation for a new framework for the regulation of laboratory developed tests (“LDTs”) may negatively impact the LDT market and thereby reduce demand for RUO products.

If the FDA requires marketing authorization of our RUO products in the future, there can be no assurance that the FDA will ultimately grant any clearance or approval requested by us in a timely manner, or at all.

We expect to rely on third parties to conduct any future studies of our diagnostic products that may be required by the FDA or other regulatory authorities, and those third parties may not perform satisfactorily.

We do not have the ability to independently conduct the clinical studies or other studies that may be required to obtain FDA and other regulatory clearance or approval for our diagnostic products, including the HTG EdgeSeq system and related proprietary panels. Accordingly, we expect to rely on third parties, such as medical institutions and clinical investigators, and providers of NGS instrumentation, to conduct such studies and/or to provide information necessary for our submissions to regulatory authorities. Our reliance on these third parties for clinical development activities or information will reduce our control over these activities. These third parties may not complete activities on schedule or conduct studies in accordance with regulatory requirements or our study design. Similarly, providers of NGS instrumentation may not place the same importance on our regulatory submissions as we do. Our reliance on third parties that we do not control will not relieve us of any applicable requirement to prepare, and ensure compliance with, the various procedures required under good clinical practices, or the submission of all information required in connection with requested regulatory approvals. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines if the third parties need to be replaced or if the quality or accuracy of the data they obtain is compromised due to their failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our studies may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for our diagnostic products.

Even if we are able to obtain regulatory approval or clearance for our diagnostic products, we will continue to be subject to ongoing and extensive regulatory requirements, and our failure to comply with these requirements could substantially harm our business.

If we receive regulatory approval or clearance for our diagnostic products, we will be subject to ongoing FDA obligations and continued regulatory oversight and review, such as compliance with QSRs, inspections by the FDA, continued adverse event and malfunction reporting, corrections and removals reporting, registration and listing, and promotional restrictions, and we may also be subject to additional FDA post-marketing obligations. If we are not able to maintain regulatory compliance, we may not be permitted to market our diagnostic products and/or may be subject to fines, injunctions, and civil penalties; recall or seizure of products; operating restrictions; and criminal prosecution. In addition, we may be subject to similar regulatory compliance actions of foreign jurisdictions.

If Medicare and other third-party payors in the United States and foreign countries do not approve coverage and adequate reimbursement for our future clinical diagnostic tests enabled by our technology, the commercial success of our diagnostic products would be compromised.*

We plan to develop, obtain regulatory approval for and sell clinical diagnostics products for a number of different indications. Successful commercialization of our clinical diagnostic products depends, in large part, on the availability of coverage and adequate reimbursement for testing services using our diagnostic products from third-party payors, including government insurance plans, managed care organizations and private insurance plans. There is significant uncertainty surrounding third-party coverage and reimbursement for the use of tests that incorporate new technology, such as the HTG EdgeSeq system and related applications and assays. Reimbursement rates have the potential to fluctuate depending on the region in which the testing is provided, the type of facility or treatment center at which the testing is done, and the third-party payor responsible for payment. If our customers are unable to obtain positive coverage decisions from third-party payors approving reimbursement for our tests at adequate levels, the commercial success of our products would be compromised, and our revenue would be significantly limited. Even if we do obtain favorable reimbursement for our tests, third-party payors may withdraw their coverage policies, review and adjust the rate of

reimbursement, require co-payments from patients or stop paying for our tests, which would reduce revenue for testing services based on our technology and demand for our diagnostic products.

The American Medical Association Current Procedural Terminology (“CPT”) Editorial Panel created new CPT codes that could be used by our customers to report testing for certain large-scale multianalyte genomic sequencing procedures (“GSPs”), including our diagnostic products, if approved. Effective January 1, 2015, these codes allow for uniform reporting of broad genomic testing panels using technology similar to ours. While these codes standardize reporting for these tests, coverage and payment rates for GSPs remain uncertain and we cannot guarantee that coverage and reimbursement for these tests will be provided in the amounts we expect, or at all. Initially, industry associations recommended that payment rates for GSPs be cross-walked to existing codes on the clinical laboratory fee schedule. On October 27, 2014, Centers for Medicare and Medicaid Services (“CMS”) issued preliminary determinations for 29 new molecular pathology codes, including the GSPs, of gapfill rather than crosswalking as recommended by the Association for Molecular Pathology. This means that local private Medicare Administrative Contractors, such as Palmetto, Novidian, Novitas and Cahaba, were instructed to determine the appropriate fee schedule amounts in the first year, and CMS calculated a national payment rate based on the median of those local fee schedule amounts in the second year. This process may make it more difficult for our customers to obtain coverage and adequate reimbursement for testing services using our diagnostic products. We cannot assure that CMS and other third-party payors will establish reimbursement rates sufficient to cover the costs incurred by our customers in using our clinical diagnostic products, if approved. On September 22, 2017, gapfill pricing was set for three CPT codes which our customers may potentially utilize to obtain reimbursement, subject to regulatory limitations, for the use of our products. CPTs 81445 and 81450, for the assessment of 5-50 genes in solid and liquid tumors, respectively, were set at \$602 and \$760, respectively, and remains the same as of September 30, 2020. Additionally, CPT 81455 for the assessment of 51 or more genes in solid and liquid tumors was set at \$2,920.

Even if we are able to establish coverage and reimbursement codes for our clinical diagnostic products in development, we will continue to be subject to significant pricing pressure, which could harm our business, results of operations, financial condition and prospects.

Third-party payors, including managed care organizations as well as government payors such as Medicare and Medicaid, have increased their efforts to control the cost, utilization and delivery of healthcare services, which may include decreased coverage or reduced reimbursement. From time to time, Congress has considered and implemented changes to the Medicare fee schedules in conjunction with budgetary legislation, and pricing and payment terms, including the possible requirement of a patient co-payment for Medicare beneficiaries for laboratory tests covered by Medicare, and are subject to change at any time. Reductions in the reimbursement rate of third-party payors have occurred and may occur in the future. Reductions in the prices at which testing services based on our technology are reimbursed in the future could result in pricing pressures and have a negative impact on our revenue. In many countries outside of the United States, various coverage, pricing and reimbursement approvals are required. We expect that it will take several years to establish broad coverage and reimbursement for testing services based on our products with payors in countries outside of the United States, and our efforts may not be successful.

We may be subject, directly or indirectly, to federal and state healthcare fraud and abuse laws and other federal and state healthcare laws applicable to our business and marketing practices. If we are unable to comply, or have not complied, with such laws, we could face substantial penalties. *

Our operations may be, and may continue to be, directly, or indirectly through our customers, subject to various federal and state fraud and abuse laws, including, without limitation, the federal and state anti-kickback statutes, false claims statutes, civil monetary penalties laws, patient data privacy and security laws, physician transparency laws and marketing compliance laws. These laws may impact, among other things, our proposed sales and marketing and education programs.

The laws that may affect our ability to operate include, but are not limited to:

- The Federal Anti-kickback Statute, which prohibits, among other things, knowingly and willfully soliciting, receiving, offering or paying any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in-kind, to induce, or in return for, either the referral of an individual, or the purchase, lease, order or recommendation of any good, facility, item or service for which payment may be made, in whole or in part, under a federal healthcare program, such as the Medicare and Medicaid programs; a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation, rather, if one purpose of the remuneration is to induce referrals, the Federal Anti-Kickback Statute is violated.
- The federal physician self-referral prohibition, commonly known as the Stark Law, which prohibits, among other things, physicians who have a financial relationship, including an investment, ownership or compensation relationship with an entity, from referring Medicare and Medicaid patients to that entity for designated health services, which include clinical laboratory services, unless an exception applies. Similarly, entities may not bill Medicare, Medicaid or any other party for services furnished pursuant to a prohibited referral. Unlike the Federal Anti-Kickback Statute, the Stark Law is a strict liability statute, meaning that all of the requirements of a Stark Law exception must be met in order to be compliant with the law.
- Federal civil and criminal false claims laws, including the federal civil False Claims Act, and civil monetary penalties laws, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment or approval from Medicare, Medicaid or other governmental third-party payors that are false or fraudulent, knowingly making a false statement material to an obligation to pay or transmit money to the Federal Government or knowingly concealing or knowingly and improperly avoiding or decreasing an obligation to pay money to the Federal Government, which may apply to entities that provide coding and billing advice to customers; the Federal Government may assert that a claim including items or services resulting from a violation of the Federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the federal civil False Claims Act.
- The Federal Health Insurance Portability and Accountability Act of 1996 (“HIPAA”), which created additional federal civil and criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g., public or private) and knowingly and willfully falsifying, concealing, or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of, or payment for, healthcare benefits, items or services relating to healthcare matters; similar to the Federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the healthcare fraud statute or specific intent to violate it to have committed a violation.
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009 (“HITECH”), and their respective implementing regulations, which impose requirements on covered entities, which include certain healthcare providers, health plans, and healthcare clearinghouses as well as their respective business associates and their contractors that perform services for them that involve the use, maintenance, or disclosure of individually identifiable health information, relating to the privacy, security and transmission of individually identifiable health information.

- The Federal Physician Payments Sunshine Act, which require certain manufacturers of drugs, devices, biologicals and medical supplies for which payment is available under Medicare, Medicaid or the Children’s Health Insurance Program (with certain exceptions) to report annually to CMS information related to payments or other transfers of value made to physicians, defined to include physicians, dentists, optometrists, podiatrists and chiropractors, and teaching hospitals, as well as applicable manufacturers and group purchasing organizations to report annually to CMS certain ownership and investment interests held by physicians and their immediate family members, which will be expanded beginning in 2022, to require applicable manufacturers to report such information regarding its relationships with physician assistants, nurse practitioners, clinical nurse specialists, certified registered nurse anesthetists and certified nurse midwives during the previous year.
- State law equivalents of each of the above federal laws, such as anti-kickback, self-referral, and false claims laws which may apply to our business practices, including but not limited to, research, distribution, sales and marketing arrangements as well as submitting claims involving healthcare items or services reimbursed by any third-party payor, including commercial insurers; state laws that require device companies to comply with the industry’s voluntary compliance guidelines and the applicable compliance guidance promulgated by the Federal Government that otherwise restricts payments that may be made to healthcare providers; state laws that require device manufacturers to file reports with states regarding marketing information, such as the tracking and reporting of gifts, compensations and other remuneration and items of value provided to healthcare professionals and entities (compliance with such requirements may require investment in infrastructure to ensure that tracking is performed properly, and some of these laws result in the public disclosure of various types of payments and relationships, which could potentially have a negative effect on our business and/or increase enforcement scrutiny of our activities); and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways, with differing effects.

Promotional activities for FDA-regulated products have been the subject of significant enforcement actions brought under healthcare reimbursement laws, fraud and abuse laws, and consumer protection statutes, among other theories. Advertising and promotion of medical devices are also regulated by the Federal Trade Commission and by state regulatory and enforcement authorities. In addition, under the Federal Lanham Act and similar state laws, competitors and others can initiate litigation relating to advertising claims.

In addition, the approval and commercialization of any of our product candidates outside the United States will also likely subject us to foreign equivalents of the healthcare laws mentioned above, among other foreign laws.

Because of the breadth of these laws and the narrowness of the statutory exceptions and regulatory safe harbors available under such laws, it is possible that some of our business activities, including our relationships with physicians and other health care providers, and our evaluation, reagent rental and collaborative development agreements with customers, and sales and marketing efforts could be subject to challenge under one or more of such laws.

If our operations are found to be in violation of any of the laws described above or any other governmental regulations that apply to us, we may be subject to significant penalties, including administrative, civil and criminal penalties, damages, fines, imprisonment, disgorgement, exclusion from participation in federal healthcare programs, such as Medicare and Medicaid, contractual damages, reputational harm, additional reporting requirements and/or oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

Our employees, independent contractors, principal investigators, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements.

We are exposed to the risk of fraud or other misconduct by our employees, independent contractors, principal investigators, consultants, commercial partners and vendors. Misconduct by these parties could include intentional, reckless or negligent failures to, among other things: (i) comply with the regulations of the FDA, CMS, the Department of Health and Human Services Office of Inspector General (“OIG”) and other similar foreign regulatory bodies; (ii) provide true, complete and accurate information to the FDA and other similar regulatory bodies; (iii) comply with manufacturing standards we have established; (iv) comply with healthcare fraud and abuse laws and regulations in the United States and similar foreign fraudulent misconduct laws; or (v) report financial information or data accurately, or disclose unauthorized activities to us. These laws may impact, among other things, our activities with collaborators and key opinion leaders, as well as our sales, marketing and education programs. In particular, the promotion, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Such misconduct could also involve the improper use of information obtained in the course of clinical studies, which could result in regulatory sanctions and cause serious harm to our reputation. We currently have a code of conduct applicable to all of our employees,

but it is not always possible to identify and deter employee misconduct, and our code of conduct and the other precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses, or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant civil, criminal and administrative penalties, damages, monetary fines, disgorgement, imprisonment, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, additional reporting requirements and/or oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, and curtailment of our operations. Any of these actions or investigations could result in substantial costs to us, including legal fees, and divert the attention of management from operating our business.

Healthcare policy changes, including recently enacted legislation reforming the United States healthcare system, may have a material adverse effect on our financial condition and results of operations.*

On April 1, 2014, the Protecting Access to Medicare Act of 2014 (“PAMA”) was signed into law, which, among other things, significantly altered the current payment methodology under the Medicare Clinical Laboratory Fee Schedule (“CLFS”). Effective January 1, 2018, the CLFS is based on weighted median private payor rates as required by PAMA. Under the law, starting January 1, 2016 and every three years thereafter (or annually in the case of advanced diagnostic lab tests), applicable clinical laboratories must report laboratory test payment data for each Medicare-covered clinical diagnostic lab test that it furnishes. The most recent data collection period was from January 1, 2019 through June 30, 2019, and was followed by a six-month validation period from July 1, 2019 through December 31, 2019. Thereafter, applicable laboratories will report their data. The reported data must include the payment rate (reflecting all discounts, rebates, coupons and other price concessions) and the volume of each test that was paid by each private payor (including health insurance issuers, group health plans, Medicare Advantage plans and Medicaid managed care organizations). In January 2020, CMS announced that data reporting for clinical diagnostic laboratory tests is delayed by one year. Therefore, data that was supposed to be reported between January 1, 2020 and March 31, 2020 must now be reported between January 1, 2021 and March 31, 2021. Covered laboratories must report data from the original data collection period of January 1, 2019 through June 30, 2019. Data reporting for these tests will then resume on a three-year cycle beginning in 2024. The payment rate applies to laboratory tests furnished by a hospital laboratory if the test is separately paid under the hospital outpatient prospective payment system. It is still too early to predict the full impact on reimbursement for our products in development. In addition, CMS updated the statutory phase-in provisions such that, for 2020, the rates for clinical diagnostic laboratory tests may not be reduced by more than 10% of the rates for 2019. Additionally, there will be a 15% reduction cap for each of 2021, 2022, and 2023.

Also under PAMA, CMS is required to adopt temporary billing codes to identify new tests and new advanced diagnostic laboratory tests that have been cleared or approved by the FDA. For an existing test that is cleared or approved by the FDA and for which Medicare payment is made as of April 1, 2014, CMS is required to assign a unique billing code if one has not already been assigned by the agency. In addition to assigning the code, CMS was required to publicly report payment for the tests. We cannot determine at this time the full impact of the law, including its implementing regulations, on our business, financial condition and results of operations.

The ACA made changes that significantly impacted the biopharmaceutical and medical device industries and clinical laboratories. For example, the ACA imposes a multifactor productivity adjustment to the reimbursement rate paid under Medicare for certain clinical diagnostic laboratory tests, which may reduce payment rates. These or any future proposed or mandated reductions in payments may apply to some or all of the clinical laboratory tests that our diagnostics customers use our technology to deliver to Medicare beneficiaries, and may reduce demand for our diagnostic products.

Other significant measures contained in the ACA include, for example, coordination and promotion of research on comparative clinical effectiveness of different technologies and procedures, initiatives to revise Medicare payment methodologies, such as bundling of payments across the continuum of care by providers and physicians, and initiatives to promote quality indicators in payment methodologies. The ACA also includes significant new fraud and abuse measures, including required disclosures of financial arrangements with physician customers, lower thresholds for violations and increasing potential penalties for such violations. However, the future of the ACA is uncertain. There remain judicial and Congressional challenges to certain aspects of the ACA, as well as efforts by the Trump administration to repeal or replace certain aspects of the ACA. As a result, there have been delays in the implementation of, and action taken to repeal or replace, certain aspects of the ACA. Since January 2017, President Trump has signed several Executive Orders and other directives designed to delay the implementation of certain provisions of the ACA or otherwise circumvent some of the requirements for health insurance mandated by the ACA. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the ACA. While Congress has not passed comprehensive repeal legislation, it has enacted laws that modify certain provisions of the ACA. For example, the Tax Act includes a provision that repealed, effective January 1, 2019, the tax-based shared responsibility payment imposed by the ACA on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the “individual mandate”. In addition, the 2020

federal spending package permanently eliminated, effective January 1, 2020, the ACA-mandated medical device tax and “Cadillac” tax on high-cost employer-sponsored health coverage and, effective January 1, 2021, also eliminates the health insurer tax. On December 14, 2018, a Texas U.S. District Court Judge ruled that the ACA is unconstitutional in its entirety because the “individual mandate” was repealed by Congress as part of the Tax Act. Additionally, on December 18, 2019, the U.S. Court of Appeals for the 5th Circuit upheld the District Court ruling that the individual mandate was unconstitutional and remanded the case back to the District Court to determine whether the remaining provisions of the ACA are invalid as well. On March 2, 2020, the United States Supreme Court granted the petitions for writs of certiorari to review the case. It is unclear how this litigation and other efforts to repeal and replace ACA will impact ACA and our business. We continue to evaluate the effect that the ACA and its possible repeal and replacement has on our business.

In addition, other legislative changes have been proposed and adopted since the ACA was enacted. On August 2, 2011, then-President Obama signed into law the Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals in spending reductions. The Joint Select Committee did not achieve a targeted deficit reduction of at least \$1.2 trillion for the years 2013 through 2021, triggering the legislation’s automatic reduction to several government programs. This includes reductions to Medicare payments to providers of 2% per fiscal year, which went into effect on April 1, 2013, and, following the passage of other legislative amendments, including the Bipartisan Budget Act of 2018, will stay in effect through 2030 unless additional Congressional action is taken. The CARES Act suspended the 2% Medicare sequester from May 1 through December 31, 2020, and extended the sequester by one year, through 2030. On January 2, 2013, then-President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers, including hospitals, imaging centers and cancer treatment centers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years.

Various healthcare reform proposals have also emerged from federal and state governments. Changes in healthcare law or policy, such as the creation of broad test utilization limits for diagnostic products in general or requirements that Medicare patients pay for portions of clinical laboratory tests or services received, could substantially impact the sales of our tests, increase costs and divert management’s attention from our business. In addition, sales of our tests outside of the United States will subject us to foreign regulatory requirements, which may also change over time.

We cannot predict whether future healthcare initiatives will be implemented at the federal or state level or in countries outside of the United States in which we may do business, or the effect any future legislation or regulation will have on us. The full impact of the ACA, as well as other laws and reform measures that may be proposed and adopted in the future, remains uncertain, but may continue the downward pressure on medical device pricing, especially under the Medicare program, and may also increase our regulatory burdens and operating costs, which could have a material adverse effect on our business operations.

Risks Related to Intellectual Property

If we are unable to protect our intellectual property effectively, our business will be harmed.

We rely on patent protection as well as trademark, copyright, trade secret and other intellectual property rights protection and contractual restrictions to protect our proprietary technologies, all of which provide limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our U.S. and foreign patent and patent application portfolio relates to our nuclease-protection-based technologies as well as to lung cancer and melanoma and DLBCL biomarker panels discovered using our nuclease-protection-based technology. We have exclusive or non-exclusive licenses to multiple U.S. and foreign patents and patent applications covering technologies that we may elect to utilize in developing diagnostic tests for use on our HTG EdgeSeq system. Those licensed patents and patent applications cover technologies related to the diagnosis of breast cancer and melanoma.

If we fail to protect our intellectual property, third parties may be able to compete more effectively against us and we may incur substantial litigation costs in our attempts to recover or restrict use of our intellectual property.

We cannot assure investors that any of our currently pending or future patent applications will result in issued patents, and we cannot predict how long it will take for such patents to be issued. Further, we cannot assure investors that other parties will not challenge any patents issued to us or that courts or regulatory agencies will hold our patents to be valid or enforceable. We cannot guarantee investors that we will be successful in defending challenges made against our patents. Any successful third-party challenge to our patents could result in the unenforceability or invalidity of such patents.

The patent positions of life sciences companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in such companies’ patents has emerged to date in the United States. Furthermore, in the biotechnology field, courts frequently render opinions that may

adversely affect the patentability of certain inventions or discoveries, including opinions that may adversely affect the patentability of methods for analyzing or comparing nucleic acids molecules, such as RNA or DNA.

The patent positions of companies engaged in development and commercialization of molecular diagnostic tests are particularly uncertain. Various courts, including the U.S. Supreme Court, have recently rendered decisions that impact the scope of patentability of certain inventions or discoveries relating to molecular diagnostics. Specifically, these decisions stand for the proposition that patent claims that recite laws of nature (for example, the relationships between gene expression levels and the likelihood of risk of recurrence of cancer) are not themselves patentable unless those patent claims have sufficient additional features that provide practical assurance that the processes are genuine inventive applications of those laws rather than patent drafting efforts designed to monopolize the law of nature itself. What constitutes a “sufficient” additional feature is uncertain. Accordingly, this evolving case law in the United States may adversely impact our ability to obtain new patents and may facilitate third-party challenges to our existing owned and licensed patents.

The laws of some non-U.S. countries do not protect intellectual property rights to the same extent as the laws of the United States, and many companies have encountered significant problems in protecting and defending such rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biotechnology, which could make it difficult for us to stop the infringement of our patents. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

Changes in either the patent laws or in interpretations of patent laws in the United States or other countries may diminish the value of our intellectual property. We cannot predict the breadth of claims that may be allowed or enforced in our patents or in third-party patents. For example:

- We might not have been the first to make the inventions covered by each of our patents and pending patent applications.
- We might not have been the first to file patent applications for these inventions.
- Others may independently develop similar or alternative products and technologies or duplicate any of our products and technologies.
- It is possible that none of our pending patent applications will result in issued patents, and even if they issue as patents, they may not provide a basis for commercially viable products, may not provide us with any competitive advantages, or may be challenged and invalidated by third parties.
- We may not develop additional proprietary products and technologies that are patentable.
- The patents of others may have an adverse effect on our business.
- We apply for patents covering our products and technologies and uses thereof, as we deem appropriate. However, we may fail to apply for patents on important products and technologies in a timely fashion or at all.

In addition to pursuing patents on our technology, we take steps to protect our intellectual property and proprietary technology by entering into confidentiality agreements and intellectual property assignment agreements with our employees, consultants, corporate partners and, when needed, our advisors. Such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements, and we may not be able to prevent such unauthorized disclosure. Monitoring unauthorized disclosure is difficult, and we do not know whether the steps we have taken to prevent such disclosure are, or will be, adequate. If we were to enforce a claim that a third-party had illegally obtained and was using our trade secrets, it would be expensive and time consuming, and the outcome would be unpredictable. In addition, courts outside the United States may be less willing to protect trade secrets.

In addition, competitors could purchase our products and attempt to replicate some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. If our intellectual property is not adequately protected so as to protect our market against competitors' products and methods, our competitive position could be adversely affected, as could our business.

We have not yet registered certain of our trademarks, including “HTG Edge,” “HTG EdgeSeq,” “VERI/O,” and “qNPA,” in all of our potential markets. If we apply to register these trademarks, our applications may not be allowed for registration, and our registered trademarks may not be maintained or enforced. In addition, opposition or cancellation proceedings may be filed against our

trademark applications and registrations, and our trademarks may not survive such proceedings. If we do not secure registrations for our trademarks, we may encounter more difficulty in enforcing them against third parties than we otherwise would.

To the extent our intellectual property, including licensed intellectual property, offers inadequate protection, or is found to be invalid or unenforceable, we would be exposed to a greater risk of direct competition. If our intellectual property does not provide adequate protection against our competitors' products, our competitive position could be adversely affected, as could our business. Both the patent application process and the process of managing patent disputes can be time consuming and expensive.

We may need to depend on certain technologies that are licensed to us. We do not control these technologies and any loss of our rights to them could prevent us from selling some of our products.

We have entered into several license agreements with third parties for certain licensed technologies that are, or may become relevant to the products we market, or plan to market. In addition, we may in the future elect to license third-party intellectual property to further our business objectives and/or as needed for freedom to operate for our products. We do not and will not own the patents, patent applications or other intellectual property rights that are a subject of these licenses. Our rights to use these technologies and employ the inventions claimed in the licensed patents, patent applications and other intellectual property rights are or will be subject to the continuation of and compliance with the terms of those licenses.

We might not be able to obtain licenses to technology or other intellectual property rights that we require. Even if such licenses are obtainable, they may not be available at a reasonable cost or multiple licenses may be needed for the same product (e.g., stacked royalties). We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our margins. Further, we could encounter delays in product introductions, or interruptions in product sales, as we develop alternative methods or products.

In some cases, we do not or may not control the prosecution, maintenance, or filing of the patents or patent applications to which we hold licenses, or the enforcement of these patents against third parties. As a result, we cannot be certain that drafting or prosecution of the licensed patents and patent applications by the licensors have been or will be conducted in compliance with applicable laws and regulations or will result in valid and enforceable patents and other intellectual property rights.

Certain of the U.S. patent rights we own, have licensed or may license relate to technology that was developed with U.S. government grants, in which case the U.S. government has certain rights in those inventions, including, among others, march-in license rights. In addition, federal regulations impose certain domestic manufacturing requirements with respect to any products within the scope of those U.S. patent claims.

We may be involved in lawsuits to protect or enforce our patent or other proprietary rights, to determine the scope, coverage and validity of others' patent or other proprietary rights, or to defend against third-party claims of intellectual property infringement, any of which could be time-intensive and costly and may adversely impact our business or stock price.

We may from time to time receive notices of claims of infringement and misappropriation or misuse of other parties' proprietary rights, including with respect to third-party trade secrets, infringement by us of third-party patents and trademarks or other rights, or challenges to the validity or enforceability of our patents, trademarks or other rights. Some of these claims may lead to litigation. We cannot assure investors that such actions will not be asserted or prosecuted against us or that we will prevail in any or all such actions.

Litigation may be necessary for us to enforce our patent and other proprietary rights or to determine the scope, coverage and validity of the proprietary rights of others. The outcome of any litigation or other proceeding is inherently uncertain and might not be favorable to us. In addition, any litigation that may be necessary in the future could result in substantial costs, even if we were to prevail, and diversion of resources and could have a material adverse effect on our business, operating results or financial condition.

As we move into new markets and applications for our products, incumbent participants in such markets may assert their patents and other proprietary rights against us as a means of slowing our entry into such markets or as a means to extract substantial license and royalty payments from us. Our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we currently have. In addition, future litigation may involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may provide little or no deterrence or protection. Therefore, our commercial success may depend in part on our non-infringement of the patents or proprietary rights of third parties. Numerous significant intellectual property issues have been litigated, and will likely continue to be litigated, between existing and new participants in our existing and targeted markets and competitors may assert that our products infringe their intellectual property rights as part of a business strategy to impede our successful entry into those markets. We have not conducted comprehensive freedom-to-operate searches to determine whether the commercialization of our products or other business activities would infringe patents issued to third parties. Third parties may assert that we are employing their proprietary technology without authorization. In addition, our competitors and others may have patents or may in the future obtain patents and claim that use of our products infringes these patents.

We could incur substantial costs and divert the attention of our management and technical personnel in defending against any of these claims. Parties making claims against us may be able to obtain injunctive or other relief, which could block our ability to develop, commercialize and sell products, and could result in the award of substantial damages against us. In the event of a successful claim of infringement against us, we may be required to pay damages and obtain one or more licenses from third parties or be prohibited from selling certain products. We may not be able to obtain these licenses at a reasonable cost, if at all. We could therefore incur substantial costs related to royalty payments for licenses obtained from third parties, which could negatively affect our margins. In addition, we could encounter delays in product introductions while we attempt to develop alternative methods or products to avoid infringing third-party patents or proprietary rights. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, and the prohibition of sale of any of our products could materially affect our ability to grow and gain market acceptance for our products.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

In addition, our agreements with some of our suppliers, distributors, customers and other entities with whom we do business require us to defend or indemnify these parties to the extent they become involved in infringement claims against us, including the claims described above. We could also voluntarily agree to defend or indemnify third parties in instances where we are not obligated to do so if we determine it would be important to our business relationships. If we are required or agree to defend or indemnify any of these third parties in connection with any infringement claims, we could incur significant costs and expenses that could adversely affect our business, operating results, or financial condition.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our employees' former employers.

Many of our employees were previously employed at other medical diagnostic companies, including our competitors or potential competitors. Although no claims against us are currently pending, we may be subject to claims that these employees or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights. A loss of key research personnel work product could hamper or prevent our ability to commercialize certain potential products, which could severely harm our business. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Our products contain third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products.

Our products contain software tools licensed by third-party authors under "open source" licenses. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar products with less development effort and time and ultimately could result in a loss of product sales.

Although we monitor our use of open source software to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products. Moreover, we cannot assure investors that our processes for controlling our use of open source software in our products will be effective. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our products on terms that are not economically feasible, to re-engineer our products, to discontinue the sale of our products if re-engineering could not be accomplished on a timely basis, or to make generally available, in source code form, our proprietary code, any of which could adversely affect our business, operating results, and financial condition.

We use third-party software that may be difficult to replace or cause errors or failures of our products that could lead to lost customers or harm to our reputation.

We use software licensed from third parties in our products. In the future, this software may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of this software could result in delays in the production of our products until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. In addition, any errors or defects in third-party software, or other third-party software failures could result in errors, defects or cause our products to fail, which could harm our business and be costly to correct. Many of these providers attempt to impose limitations on their liability for such errors, defects or failures, and if enforceable, we may have additional liability to our customers or third-party providers that could harm our reputation and increase our operating costs.

We will need to maintain our relationships with third-party software providers and to obtain software from such providers that do not contain any errors or defects. Any failure to do so could adversely impact our ability to deliver reliable products to our customers and could harm our results of operations.

Risks Related to Being a Public Company

Complying with the laws and regulations affecting public companies increases our costs and the demands on management and could harm our operating results.*

As a public company, we will continue to incur significant legal, accounting and other expenses. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. In addition, the Sarbanes-Oxley Act and rules subsequently implemented by the SEC and Nasdaq, impose numerous requirements on public companies, including corporate governance requirements. Our management and other personnel will need to continue to devote a substantial amount of time to compliance with these laws and regulations. These requirements have resulted and will continue to result in significant legal, accounting, and financial compliance costs and have made and will continue to make some activities more time consuming and costly.

As an “emerging growth company,” we have availed ourselves of the exemption from the requirement that our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting under Section 404. However, we may no longer avail ourselves of this exemption when we cease to be an “emerging growth company” unless we are a “non-accelerated filer.” When our independent registered public accounting firm is required to undertake an assessment of our internal control over financial reporting, the cost of our compliance with Section 404 will correspondingly increase. Our compliance with applicable provisions of Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements. Moreover, if we are not able to comply with the requirements of Section 404 applicable to us in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Furthermore, investor perceptions of our company may suffer if deficiencies are found, and this could cause a decline in the market price of our stock. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our stated operating results and harm our reputation. If we are unable to implement these requirements effectively or efficiently, it could harm our operations, financial reporting, or financial results and could result in an adverse opinion on our internal controls from our independent registered public accounting firm.

We are an “emerging growth company,” and a “smaller reporting company” and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies or smaller reporting companies could make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, enacted in April 2012, and a “smaller reporting company,” as defined in the Exchange Act, and for as long as we continue to be an “emerging growth company” or a “smaller reporting company,” we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies” or “smaller reporting companies,” including, but not limited to, not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 (for so long as we are an “emerging growth company” or a “non-accelerated filer”), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements (for so long as we are an “emerging growth company” or a “smaller reporting company”), and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved (for so long as we are an “emerging growth company”). We will be an “emerging growth company” until December 31, 2020. We expect to be both a “smaller reporting company” and a “non-accelerated filer in 2021. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If

some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

Risks Related to Our Common Stock

We expect that our stock price will fluctuate significantly.*

The trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- actual or anticipated quarterly variation in our results of operations or the results of our competitors;
- announcements by us or our competitors of new products, significant contracts, commercial relationships or capital commitments;
- failure to obtain or delays in obtaining product approvals or clearances from the FDA or foreign regulators;
- adverse regulatory or coverage and reimbursement announcements;
- issuance of new or changed securities analysts' reports or recommendations for our stock;
- developments or disputes concerning our intellectual property or other proprietary rights;
- commencement of, or our involvement in, litigation;
- market conditions in the life sciences and molecular diagnostics markets;
- manufacturing disruptions;
- any future sales of our common stock or other securities;
- any change to the composition of our Board of Directors, executive officers or key personnel;
- our failure to meet applicable Nasdaq listing standards and the possible delisting of our common stock from Nasdaq;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- disruptions caused by man-made or natural disasters or public health pandemics or epidemics or other business interruptions, including, for example, the COVID-19 pandemic;
- general economic conditions and slow or negative growth of our markets; and
- the other factors described in this report under the caption "Risk Factors – Risks Related to Our Common Stock."

The stock market in general, and market prices for the securities of health technology companies like ours in particular, have from time to time experienced volatility that often has been unrelated to the operating performance of the underlying companies. The ongoing COVID-19 pandemic, for example, has resulted in significant volatility in the stock market over the last several months. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. In several recent situations where the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of the lawsuit could be costly and divert the time and attention of our management and harm our operating results.

In addition, to date our common stock has generally been sporadically and thinly traded. As a consequence, the trading of relatively small quantities of our shares may disproportionately influence the price of our common stock in either direction. The price for our common stock could decline precipitously if even a moderate amount of our common stock is sold on the market without commensurate demand.

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

We expect that significant additional capital will be needed in the future to continue our planned operations. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by these and subsequent sales. New investors could also gain rights superior to our existing stockholders.

Pursuant to our 2020 Equity Incentive Plan (“2020 Plan”) our Board of Directors is authorized to grant stock options and other equity-based awards to our employees, directors and consultants. In addition, our Board of Directors approved the granting of rights to eligible employees to purchase shares of our common stock pursuant to our 2014 Employee Stock Purchase Plan (“ESPP”) beginning January 1, 2016. The number of shares of our common stock reserved for issuance under the ESPP will automatically increase on January 1 of each calendar year by the lesser of 1% of the total number of shares of our common stock outstanding on December 31 of the preceding calendar year and 195,000 shares, subject to the ability of our Board of Directors to take action to reduce the size of the increase in any given year. Currently, we plan to register the increased number of shares available for issuance under the ESPP each year. Increases in the number of shares available for future grant or purchase may result in additional dilution, which could cause our stock price to decline.

If we are unable to continue to satisfy the applicable continued listing requirements of Nasdaq, our common stock could be delisted.*

Our common stock is currently listed on The Nasdaq Capital Market under the symbol “HTGM.” In order to maintain this listing, we must continue to satisfy minimum financial and other continued listing requirements and standards. There can be no assurance that we will be able to continue to comply with the applicable listing standards. On October 4, 2019, we received a letter from Nasdaq indicating that we are not in compliance with the minimum bid price requirement of Nasdaq Listing Rule 5550(a)(2), which requires that companies listed on The Nasdaq Capital Market maintain a minimum closing bid price of at least \$1.00 per share. In March 2020, we requested and received an additional 180-day extension to regain compliance with the \$1.00 minimum closing bid price requirement. In August 2020, we obtained stockholder approval at our 2020 annual meeting of authority to implement a reverse stock split at a ratio between 1-for-7 and 1-for-15, inclusive, as determined by our Board of Directors in its sole discretion. We have not yet implemented a reverse stock split and there can be no assurance we will be able to regain compliance with the \$1.00 minimum closing bid price requirement or maintain compliance with the other continued listing requirements of the Nasdaq Capital Market.

If we were not able to comply with applicable listing standards, our shares of common stock would be subject to delisting. The delisting of our common stock from trading on Nasdaq may have a material adverse effect on the market for, and liquidity and price of, our common stock and impair our ability to raise capital. Delisting from Nasdaq could also have other negative results, including, without limitation, the potential loss of confidence by customers and employees, the loss of institutional investor interest and fewer business development opportunities. In the event that our common stock is delisted from Nasdaq and is not eligible for quotation or listing on another market or exchange, trading of our common stock could be conducted only in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely also be a reduction in our coverage by securities analysts and the news media, which could cause the price of our common stock to decline further.

We do not intend to pay dividends on our common stock in the foreseeable future.

We have never declared or paid any cash dividend on our common stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends is currently prohibited by the terms of our debt facility, and any future debt financing arrangement may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock. Any return to stockholders will therefore be limited to the appreciation of their stock.

Provisions in our amended and restated certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third-party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders or remove our current management.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders and may prevent attempts by our stockholders to replace or remove our current management. These provisions include:

- authorizing the issuance of “blank check” preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval;
- limiting the removal of directors by the stockholders;
- creating a staggered board of directors;
- prohibiting stockholder action by written consent, thereby requiring all stockholder actions to be taken at a meeting of our stockholders;
- eliminating the ability of stockholders to call a special meeting of stockholders; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our Board of Directors, which is responsible for appointing the members of our management. In addition, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder, unless such transactions are approved by our Board of Directors. This provision could have the effect of delaying or preventing a change of control, whether or not it is desired by or beneficial to our stockholders. Further, other provisions of Delaware law may also discourage, delay or prevent someone from acquiring us or merging with us.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for certain disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.*

Our amended and restated certificate of incorporation and our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by law, be the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf; (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders; (3) any action asserting a claim against us or any of our directors or officers or other employees arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate or our amended and restated bylaws; and/or (4) any action asserting a claim against us or any of our directors or officers or other employees governed by the internal affairs doctrine. The foregoing provisions do not apply to actions brought to enforce a duty or liability created by the Securities Act or the Exchange Act, or any other claim for which the federal courts have exclusive jurisdiction.

These exclusive forum provisions may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers and other employees. If a court were to find the exclusive forum provision in our governing documents to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could seriously harm our business.

General Risk Factors

If we fail to maintain proper and effective internal controls, our ability to produce accurate consolidated financial statements on a timely basis could be impaired.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules and regulations of The Nasdaq Stock Market (“Nasdaq”). The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP. We have performed system and process evaluation and testing of our internal controls over financial reporting to allow management to report annually on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act.

This has required and will require that we incur substantial professional fees and internal costs to augment our accounting and finance functions and that we expend significant management efforts as we continue to make this assessment and ensure maintenance of proper internal controls on an ongoing basis.

If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, or if we fail to establish and maintain proper and effective internal control over financial reporting, we may not be able to produce timely and accurate consolidated financial statements, and our ability to accurately report our financial results could be adversely affected. If that were to happen, the market price of our stock could decline, and we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities.

Sales of a substantial number of shares of our common stock in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

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

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of the analysts who cover us issues an adverse opinion about our company, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.**EXHIBIT INDEX**

Exhibit Number	Description
2.1	<u>Asset Purchase Agreement dated January 9, 2001, as amended by and between the Registrant, NuvoGen, L.L.C., Stephen Felder and Richard Kris (incorporated by reference to Exhibit 2.1 to the Registrant's registration Statement on Form S-1, as amended (File No. 333-201313), originally filed with the SEC on December 30, 2014).</u>
3.1	<u>Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 12, 2015).</u>
3.2	<u>Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 0001-37369), filed with the SEC on February 26, 2020.</u>
3.3	<u>Amended and Restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K, filed with the SEC on May 12, 2015).</u>
4.1	Reference is made to Exhibits <u>3.1</u> , <u>3.2</u> and <u>3.3</u> .
4.2	<u>Form of Common Stock Certificate of the Registrant (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-201313), originally filed with the SEC on December 30, 2014).</u>
4.3	<u>Series E Preferred Stock Warrant issued by the Registrant to Silicon Valley Bank, dated August 22, 2014 (incorporated by reference to Exhibit 4.4 to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-201313), originally filed with the SEC on December 30, 2014).</u>
4.4	<u>Series E Preferred Stock Warrant issued by the Registrant to Oxford Finance LLC, dated August 22, 2014 (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-201313), originally filed with the SEC on December 30, 2014).</u>
4.5	<u>Form of Warrant issued by Registrant to bridge financing investors (incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-201313), originally filed with the SEC on December 30, 2014).</u>
4.6	<u>Form of Warrant issued by Registrant to bridge financing investors (incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form S-1, as amended (File No. 333-201313), originally filed with the SEC on December 30, 2014).</u>
4.7	<u>Common Stock Warrant issued by the Registrant to Oxford Finance LLC, dated March 28, 2016 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on June 30, 2016).</u>
4.8	<u>Warrant issued to MidCap Funding XXVIII Trust, dated March 26, 2018 (incorporated by reference to Exhibit 4.10 to the Registrant's Quarterly Report on Form 10-Q, filed with the SEC on May 10, 2018).</u>
4.9	<u>Form of Pre-Funded Warrant to Purchase Shares of Common Stock, dated September 24, 2019 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on September 23, 2019).</u>
4.10	<u>Warrant to Purchase Common Stock, issued to Silicon Valley Bank on June 24, 2020 (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K, filed with the SEC on June 25, 2020).</u>
10.1	<u>HTG Molecular Diagnostics, Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 0001-37369), filed with the Commission on August 20, 2020).</u>
10.2	<u>Form of Stock Option Grant Notice, Option Agreement and Notice of Exercise under the HTG Molecular Diagnostics, Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 (File No. 333-248207), filed with the Commission on August 20, 2020).</u>

<u>Exhibit Number</u>	<u>Description</u>
10.3	<u>Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under the HTG Molecular Diagnostics, Inc. 2020 Equity Incentive Plan (incorporated by reference to Exhibit 99.3 to the Registrant's Registration Statement on Form S-8 (File No. 333-248207), filed with the Commission on August 20, 2020).</u>
31.1	<u>Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</u>
31.2	<u>Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.</u>
32.1	<u>Certification of the Principal Executive Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of the Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

HTG Molecular Diagnostics, Inc.

Date: November 10, 2020

By: _____ /s/ John L. Lubniewski

John L. Lubniewski

*President and Chief Executive Officer
(Principal Executive Officer)*

Date: November 10, 2020

By: _____ /s/ Laura L. Godlewski

Laura L. Godlewski

*Vice President of Finance and Principal
Accounting Officer
(Principal Accounting Officer)*

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

I, John L. Lubniewski, certify that:

1. I have reviewed this Form 10-Q of HTG Molecular Diagnostics, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2020

By: _____ /s/ John L. Lubniewski
John L. Lubniewski
Chief Executive Officer
(Principal Executive Officer)

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

I, Shaun D. McMeans, certify that:

1. I have reviewed this Form 10-Q of HTG Molecular Diagnostics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2020

By: _____ /s/ Shaun D. McMeans
Shaun D. McMeans
Chief Financial Officer
(Principal Financial Officer)

