FLUIDIGM CORP
Form 10-Q
August 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
or
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-34180

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of July 25, 2014, there were 28,171,212 shares of the Registrant's common stock outstanding.

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

	June 30, 2014 (Unaudited)	December 31, 2013 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$43,681	$35,261
Short-term investments	51,063	49,083
Accounts receivable (net of allowances of $36 at June 30, 2014 and December 31, 2013)	13,329	10,552
Inventories	16,357	8,148
Prepaid expenses and other current assets	3,004	1,540
Total current assets	127,434	104,584
Long-term investments	62,294	1,942
Property and equipment, net	11,568	6,818
Developed technology, net	107,800	—
Goodwill	104,245	—
Other non-current assets	4,405	3,571
Total assets	$417,746	$116,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$7,637	$4,353
Accrued compensation and related benefits	5,506	5,485
Other accrued liabilities	8,296	5,392
Deferred revenue, current portion	5,867	2,721
Total current liabilities	27,306	17,951
Convertible notes, net	195,343	—
Deferred tax liability	27,904	—
Deferred revenue, net of current portion	4,227	1,899
Other non-current liabilities	1,140	651
Total liabilities	255,920	20,501
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized, no shares issued and outstanding at June 30, 2014 and December 31, 2013	—	—
Common stock: $0.001 par value, 200,000 shares authorized at June 30, 2014 and December 31, 2013; 28,159 and 25,811 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	28	26
Additional paid-in capital	447,941	354,465
Accumulated other comprehensive loss	(700)	(730)
Accumulated deficit	(285,443)	(257,347)
Total stockholders' equity	161,826	96,414
Total liabilities and stockholders' equity	$417,746	$116,915

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenue:				
Product revenue	$27,479	$17,267	$52,928	$31,522
License revenue	74	48	186	163
Grant revenue	54	165	217	330
Total revenue	27,607	17,480	53,331	32,015
Costs and expenses:				
Cost of product revenue	9,955	4,876	18,659	9,135
Research and development	11,374	4,997	19,020	9,194
Selling, general and administrative	18,655	11,597	33,912	22,743
Acquisition-related expenses	—	—	10,696	—
Total costs and expenses	39,984	21,470	82,287	41,072
Loss from operations	(12,377)	(3,990)	(28,956)	(9,057)
Interest expense	(1,415)	(2)	(2,441)	(12)
Gain from sale of investment in Verinata	—	—	—	1,777
Other (expense) income, net	(18)	(39)	30	(252)
Loss before income taxes	(13,810)	(4,031)	(31,367)	(7,544)
Benefit from (provision for) income taxes	1,128	(15)	3,271	(53)
Net loss	$(12,682)	$(4,046)	$(28,096)	$(7,597)
Net loss per share, basic and diluted	$(0.45)	$(0.16)	$(1.03)	$(0.30)
Shares used in computing net loss per share, basic and diluted	27,960	25,443	27,389	25,343

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$(12,682)	$(4,046)	$(28,096)	$(7,597)
Other comprehensive income (loss), net of tax				
Unrealized net loss on available-for-sale securities	(41)	(19)	(40)	(14)
Foreign currency translation adjustment	98	(4)	70	(12)
Other comprehensive income (loss), net of tax	57	(23)	30	(26)
Total comprehensive loss	$(12,625)	$(4,069)	$(28,066)	$(7,623)

See accompanying notes.

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

	Six Months Ended June 30, 2014	2013
Operating activities		
Net loss	$(28,096)	$(7,597)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,842	1,193
Stock-based compensation expense	9,256	2,932
Acquisition-related share-based awards acceleration expense	2,648	—
Amortization of developed technology	4,200	—
Non-cash charges for sale of inventory revalued at the date of acquisition	682	—
Gain from sale of investment in Verinata	—	(1,777)
Other non-cash items	67	29
Changes in assets and liabilities:		
Accounts receivable, net	4,892	2,143
Inventories	(5,709)	(433)
Prepaid expenses and other current assets	6	(949)
Other non-current assets	(1,161)	(9)
Accounts payable	2,183	(116)
Deferred revenue	2,001	882
Other current liabilities	765	108
Other non-current liabilities	(3,811)	73
Net cash used in operating activities	(10,235)	(3,521)
Investing activities		
Acquisition, net of cash acquired	(113,190)	—
Purchases of investments	(86,793)	(40,620)
Proceeds from sales and maturities of investments	24,461	14,440
Proceeds from sale of investment in Verinata	—	3,117
Purchase of intangible assets	—	(1,148)
Purchases of property and equipment	(4,563)	(912)
Net cash used in investing activities	(180,085)	(25,123)
Financing activities		
Proceeds from issuance of convertible notes, net	195,212	—
Proceeds from exercise of stock options	3,457	2,420
Net cash provided by financing activities	198,669	2,420
Effect of foreign exchange rate fluctuations on cash and cash equivalents	71	(135)
Net increase (decrease) in cash and cash equivalents	8,420	(26,359)
Cash and cash equivalents at beginning of period	35,261	58,649
Cash and cash equivalents at end of period	$43,681	$32,290
Supplemental cash flow information:		
Issuance of common stock and options related to acquisition	$78,196	$—

See accompanying notes.

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FLUIDIGM CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of Business
Fluidigm Corporation (we, our, or us) was incorporated in the State of California in May 1999 to commercialize microfluidic technology initially developed at the California Institute of Technology. In July 2007, we were reincorporated in Delaware. Our headquarters are located in South San Francisco, California. We develop, manufacture, and market life science analytical and preparatory systems for growth markets such as single-cell biology and production genomics. We sell to leading academic institutions, clinical laboratories, and pharmaceutical, biotechnology, and agricultural biotechnology (Ag-Bio) companies worldwide. Our systems are based on proprietary microfluidics and multi-parameter mass cytometry technology, and are designed to significantly simplify experimental workflow, increase throughput, and reduce costs, while providing excellent data quality.

2. Summary of Significant Accounting Policies
Basis of Presentation
The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP have been condensed or omitted, and accordingly the balance sheet as of December 31, 2013 has been derived from audited consolidated financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements. These financial statements have been prepared on the same basis as our annual financial statements and, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our financial information. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or for any other interim period or for any other future year.
The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. On an ongoing basis, we evaluate our estimates, including critical accounting policies or estimates related to revenue recognition, income tax provisions, stock-based compensation, inventory valuation, allowances for doubtful accounts, and useful lives of long-lived assets. We base our estimates on historical experience and on various relevant assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.
The accompanying condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for the year ended December 31, 2013 included in our Annual Report on Form 10-K filed with the SEC.
Reclassifications
Certain items previously reported in the condensed consolidated statement of cash flows have been reclassified to conform to the current period presentation. Such reclassifications do not impact previously reported net cash used in operating activities, net cash used in investing activities, net cash provided by financing activities, or change in cash and cash equivalents.
Net Loss per Share
Our basic and diluted net loss per share is calculated by dividing net loss by the weighted-average number of shares of common stock outstanding for the period. Restricted stock units and options to purchase common stock are considered to be potentially dilutive common shares but have been excluded from the calculation of diluted net loss per share as their effect is anti-dilutive for all periods presented.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options, restricted stock units, and unvested restricted stock	3,972	3,731	3,972	3,731
Convertible notes	3,598	—	3,598	—
Total	7,570	3,731	7,570	3,731

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss for the six months ended June 30, 2014 are summarized as follows (in thousands):

	Net Unrealized Gain (Loss) on Marketable Securities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Loss
Balance at December 31, 2013	$12	$(742)	$(730)
Other comprehensive income (loss)	1	(28)	(27)
Amounts reclassified to interest income	—	—	—
Balance at March 31, 2014	$13	$(770)	$(757)
Other comprehensive (loss) income	(33)	98	65
Amounts reclassified to interest income	(8)	—	(8)
Balance at June 30, 2014	$(28)	$(672)	$(700)

Investment, at cost

In February 2013, Illumina, Inc. acquired Verinata Health, Inc. (Verinata) for $350 million in cash and up to an additional $100 million in milestone payments through 2015. In March 2013, we received cash proceeds of $3.1 million in exchange for our ownership interest in Verinata resulting in a gain of $1.8 million. If the milestone payments become payable in the future, we could receive up to $3.2 million in additional proceeds.

Business Combinations

Assets acquired and liabilities assumed as part of a business acquisition are generally recorded at their fair value at the date of acquisition. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires management to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. Accounting for business acquisitions requires management to make judgments as to whether a purchase transaction is a multiple element contract, meaning that it includes other transaction components such as a settlement of a preexisting relationship. This judgment and determination affects the amount of consideration paid that is allocable to assets and liabilities acquired in the business purchase transaction.

Long-lived Assets, including Goodwill

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

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order to determine the implied fair value of the goodwill. If the carrying value of the goodwill exceeds the implied fair value, then an impairment loss equal to the difference would be recorded.

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

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This guidance is intended to provide disclosure on items reclassified out of accumulated other comprehensive income (loss) either in the notes or parenthetically on the face of the income statement. There was no impact on our financial statements from adoption, other than the additional disclosures.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. It will be effective for our first quarter of 2017 and early adoption is not permitted. We are currently evaluating the impact of adoption of this new accounting pronouncement on our financial statements.

3. Convertible Notes

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

We received $195.2 million, net of underwriting discounts, from the issuance of the Notes and incurred approximately $1.1 million in offering-related expenses. We used $126.0 million of the net proceeds to fund the cash portion of the consideration payable by us in connection with our acquisition of DVS Sciences, Inc. (now Fluidigm Sciences Inc.) (See Note 4).

4. Acquisition

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

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

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

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

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

Approximately 885,000 shares of Fluidigm common stock, with a fair value of $38.6 million, representing 50.3030% of the shares otherwise payable to the former stockholders of DVS, was deposited into escrow. These shares comprise a portion of the merger consideration and will be held in escrow to secure indemnification obligations under the merger agreement, if any, for a period of 13 to 18 months following the Acquisition Date, subject to any then pending indemnification claims.

Prior to the closing of the acquisition, we closed an underwritten public offering of $201.3 million aggregate principal amount of our Notes (See Note 3) to fund a portion of the cash consideration payable in connection with the acquisition. The results of DVS's operations have been included in the condensed consolidated financial statements for the period from February 13, 2014 to June 30, 2014.

As of June 30, 2014, the accounting for the acquisition is preliminary due to the ongoing analysis of the developed technology relating to intellectual property rights acquired in connection with the acquisition, associated royalty obligations pursuant to third-party license agreements, and certain tax liabilities. Upon completion of this analysis and during the measurement period, we may record adjustments to the estimated amounts recorded.

Net Assets Acquired

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

	Allocation of purchase price
Cash and cash equivalents	$8,405
Accounts receivable, net	7,698
Inventories	3,489
Prepaid expenses and other current assets	1,482
Property and equipment, net	1,202
Developed technology	112,000
Goodwill	104,245
Other non-current assets	88
Total assets acquired	238,609
Accounts payable	(1,114)
Accrued compensation and related benefits	(761)
Other accrued liabilities	(1,204)
Deferred revenue, current portion	(1,844)
Tax payable	(45)
Deferred tax liability	(32,079)
Deferred revenue, net of current portion	(1,629)
Net assets acquired	$199,933

The following table is a summary of the fair value estimate of the identifiable intangible asset (in thousands) and its useful life:

	Useful Life	Estimated Fair Value
Developed technology	10 years	$112,000

The $104.2 million of goodwill recognized as part of the transaction is attributable primarily to expected synergies and other benefits from the acquisition and is not expected to be deductible for income tax purposes.

Acquisition Costs

Acquisition-related expenses were $10.7 million for the six months ended June 30, 2014 and primarily included accelerated vesting of certain DVS restricted stock and options, and consulting, legal, and investment banking fees. These costs are included within the acquisition-related expenses line of the condensed consolidated statements of operations.

Actual and Pro Forma Results

The unaudited financial information in the table below summarizes our results of operations combined with DVS's as though the companies were combined as of the beginning of each of the periods presented. The unaudited pro forma information does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the fiscal reporting periods indicated nor is it indicative of future operating results.

(in thousands)	Six Months Ended June 30	
	2014	2013
Pro forma total revenue	$57,121	$42,948
Pro forma net loss	$(30,515)	$(20,537)

5. Goodwill and Intangible Assets

Goodwill

Upon the acquisition of DVS, we acquired $104.2 million of goodwill. There were no changes in goodwill between the Acquisition Date and June 30, 2014.

Intangible Assets

The following table provides details of our intangible assets related to the DVS acquisition as of June 30, 2014 (in thousands, except years):

	Gross	Accumulated Amortization	Net	Useful Life (years)
Developed technology	$ 112,000	$ (4,200)	$ 107,800	10

We recognized $2.8 million and $4.2 million in intangible asset amortization expense during the three and six months ended June 30, 2014, respectively. The estimated future amortization expense of intangible assets as of June 30, 2014 is as follows (in thousands):

	Amount
2014 (remainder of year)	$ 5,600
2015	11,200
2016	11,200
2017	11,200
2018	11,200
Thereafter	57,400
	$ 107,800

6. Balance Sheet Details
Inventories
Inventories consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	$4,922	$2,650
Work-in-process	2,620	1,627
Finished goods	8,815	3,871
	$16,357	$8,148

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

	June 30, 2014	December 31, 2013
Computer equipment and software	$3,063	$2,728
Laboratory and manufacturing equipment	15,103	13,972
Leasehold improvements	1,556	1,485
Office furniture and fixtures	1,284	822
	21,006	19,007
Less accumulated depreciation and amortization	(14,830)	(14,470)
Construction-in-progress	5,392	2,281
Property and equipment, net	$11,568	$6,818

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

The following table sets forth our financial instruments that were measured at fair value by level within the fair value hierarchy (in thousands):

	June 30, 2014				December 31, 2013			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Assets								
Money market funds	$17,387	$—	$—	$17,387	$17,547	$—	$—	$17,547
U.S. government and agency securities	—	113,357	—	113,357	—	51,025	—	51,025
Total assets measured at fair value	$17,387	$113,357	$—	$130,744	$17,547	$51,025	$—	$68,572

There were no significant transfers in and out of Level 1 and Level 2 fair value measurement categories during the three and six months ended June 30, 2014 and 2013.

The following is a summary of investments at June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	$113,385	$14	$(42)	$113,357

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
U.S. government and agency securities	$51,012	$17	$(4)	$51,025

The contractual maturity dates of $51.1 million of our investments are within one year from June 30, 2014. The contractual maturity dates of our remaining securities are less than eighteen months from June 30, 2014.

Based on an evaluation of securities that were in a loss position, we did not recognize any other-than-temporary impairment charges for the three and six months ended June 30, 2014 and 2013. All of these investments have been in a continuous loss position for less than 12 months. Our conclusion that these losses are not “other-than-temporary” is based on the high credit quality of the securities, their short remaining maturity and our intent and ability to hold such securities until the date of recovery of their respective market values or maturity.

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

	June 30, 2014	December 31, 2013
Cash	$26,294	$17,714
Money market funds	17,387	17,547
Cash and cash equivalents	$43,681	$35,261

At June 30, 2014, we had approximately $0.1 million in restricted cash which is included in other non-current assets on the condensed consolidated balance sheets.

8. Line of Credit

A bank line of credit, as amended, provides us with the ability to borrow up to $10.0 million, of which $6.0 million is available on a non-formula basis, subject to certain covenants and other restrictions. The balance of $4.0 million is available based on eligible receivables. The line of credit expires in December 2014 and is collateralized by our assets, excluding our intellectual property, and bears interest at a rate equal to the greater of (i) 3.75% or (ii) the prime rate plus 0.50% per year. On May 9, 2014, we entered into a modification agreement with the lender to amend and waive certain financial covenants under the financing agreement, effective as of March 31, 2014. On July 31, 2014, we entered into a modification agreement with the lender to amend and waive the financial covenant under the financing agreement regarding our effective tangible net worth amount, which cannot at any time exceed a deficit of more than $100.0 million, effective as of June 30, 2014. Except to the extent specifically amended pursuant to the modification agreements, the financing agreement remains in full force and effect. As of June 30, 2014, there was no outstanding balance on the line of credit and we were in compliance with all applicable covenants under the financing agreement.

9. Commitments and Contingencies

Operating Leases

On April 9, 2013, we entered into an amendment (the 2013 Amendment) to the lease agreement dated September 14, 2010 (as amended, the Lease) relating to the lease of office and laboratory space at our corporate headquarters located in South San Francisco, California. The 2013 Amendment provided for an expansion of the premises covered under the Lease, effective April 1, 2014; an extension of the term of the Lease to April 30, 2020 with an option to renew for an additional five years; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The 2013 Amendment also provided for an allowance of approximately $0.7 million for tenant improvements, which, to the extent not used by March 31, 2015, will be used to offset base rent obligations, and an additional allowance of approximately $0.5 million for tenant improvements, which, if used, will be repaid in equal monthly payments with interest at a rate of 9% per annum over the remaining term of the Lease.

On June 4, 2014, we entered into an additional amendment to the Lease (the 2014 Amendment), which provided for an expansion of the premises covered under the Lease by approximately 13,000 square feet, effective October 1, 2014; payment of base rent with rent escalation; and payment of certain operating expenses during the term of the Lease. The 2014 Amendment also provided for an allowance of approximately $0.2 million for tenant improvements, which, to the extent not used by March 31, 2015, will be used to offset base rent obligations, and an additional allowance of approximately $0.1 million for tenant improvements, which, if used, will be repaid in equal monthly payments with interest at a rate of 9% per annum over the remaining term of the Lease. The total future minimum lease payments for the additional space, which will be paid through April 2020, are approximately $2.5 million as of June 30, 2014.

On October 14, 2013, Fluidigm Singapore Pte. Ltd., our wholly-owned subsidiary (Fluidigm Singapore), accepted an offer of tenancy (Lease) from HSBC Institutional Trust Services (Singapore) Limited, as trustee of Ascendas Real Estate Investment Trust (Landlord), relating to the lease of a new facility located in Singapore. Pursuant to the terms of the Lease, Fluidigm Singapore took possession of the facility commencing on March 3, 2014 for a term of 99 months, and the Lease and rental obligations thereunder commenced on June 3, 2014. The Lease also provides Fluidigm Singapore with an option to renew the Lease for an additional 60 months at the then prevailing market rent, and on similar terms as the existing Lease. In June 2014, Fluidigm Singapore leased additional space of approximately 2,400 square feet in the same building as the new facility on the same terms as the Lease. We completed the consolidation of our Singapore manufacturing operations in the new space in July 2014. The leases relating to our prior manufacturing facility in Singapore will terminate on August 31, 2014. The total future minimum lease payments for the additional space, which will be paid through June 2022, are approximately $330,000 as of June 30, 2014.

In connection with our acquisition of DVS (See Note 4), we assumed the operating leases for facilities in Sunnyvale, California and Markham, Ontario, Canada, which expire in January 2016 and July 2016, respectively. The Canada lease includes an option to renew the lease for an additional five years at the then prevailing market rent, and on similar terms as the existing lease. We recognize rent expense on a straight-line basis over the non-cancelable lease term. The total future minimum lease payments for the assumed operating leases in Sunnyvale, California and Markham, Ontario, Canada are approximately $640,000 as of June 30, 2014.

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Warranty

We accrue for estimated warranty obligations at the time of product shipment. Management periodically reviews the estimated fair value of its warranty liability and records adjustments based on the terms of warranties provided to customers, historical and anticipated warranty claim experience. Activity for our warranty accrual for the three and six months ended June 30, 2014 and 2013, which is included in other accrued liabilities, is summarized below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	$1,111	$252	$344	$257
Acquired warranty obligation from DVS	—	—	791	—
Warranty expense, net	(16)	36	(40)	31
Balance at end of period	$1,095	$288	$1,095	$288

Legal Matters

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

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

10. Stock-Based Compensation

During the three and six months ended June 30, 2014, we granted certain employees options to purchase 72,000 and 403,000 shares of common stock, respectively. The options granted during the three months ended June 30, 2014 had exercise prices ranging from $27.25 to $37.56 and a total grant date fair value of $1.1 million. The options granted during the six months ended June 30, 2014 had exercise prices ranging from $27.25 to $47.55 and a total grant date fair value of $9.8 million.

During the three and six months ended June 30, 2014, we granted certain employees 38,000 and 323,000 restricted stock units, respectively. The restricted stock units granted during the three months ended June 30, 2014 had fair market values ranging from $27.74 to $37.56 and a total grant date fair value of $1.2 million. The restricted stock units granted during the six months ended June 30, 2014 had fair market values ranging from $27.74 to $47.55 and a total grant date fair value of $14.7 million. The fair value of restricted stock units is determined based on the value of the underlying common stock on the date of grant.

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

We recognized stock-based compensation expense of $5.9 million and $1.7 million during the three months ended June 30, 2014 and 2013, respectively. We recognized stock-based compensation expense of $9.3 million and $2.9 million during the six months ended June 30, 2014 and 2013, respectively. As of June 30, 2014, we had $23.0 million and $18.4 million of unrecognized stock-based compensation costs related to stock options and restricted stock units, respectively, which are expected to be recognized over a weighted average period of 2.6 years and 2.9 years, respectively.

In conjunction with the DVS acquisition, we assumed all outstanding DVS stock options and unvested shares of restricted stock (See Note 4). As of June 30, 2014, we had $1.8 million and $4.7 million of unrecognized stock-based compensation costs related to the assumed stock options and restricted stock, respectively, which are expected to be recognized over a remaining weighted average period of 1.8 years and 0.6 years, respectively.

11. Income Taxes

Income taxes are primarily comprised of state and foreign income taxes. The provision or benefit for income taxes for the periods presented differs from the 34% U.S. Federal statutory rate primarily due to maintaining a valuation allowance for U.S. losses and tax assets, which we do not consider to be realizable. Income tax expense primarily consists of amounts payable in foreign jurisdictions. As a result of the intangible assets arising from the DVS acquisition (See Note 4), we recorded foreign and California deferred tax liabilities of approximately $30.0 million and approximately $2.0 million, respectively. The related valuation allowance associated with our California deferred tax assets was released and recorded as an income tax benefit in the quarter ended March 31, 2014. Additional tax benefit was recorded in the quarter ended June 30, 2014 attributable to the acquired entity's operating losses and its related deferred tax liabilities from the amortization of acquired intangible assets.

12. Information About Geographic Areas

We operate in one repor