CareDx, Inc.
Form 10-Q
August 22, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2016

or

o 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: 001-36536

CAREDX, INC.

(Exact name of registrant as specified in its charter)

Delaware	94-3316839
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3260 Bayshore Boulevard

Brisbane, California 94005

(Address of principal executive offices and zip code)

(415) 287-2300

(Registrant's telephone number, including area code)

N/A

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

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

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

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	o	Accelerated filer	o
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

There were 18,976,343 shares of the registrant's Common Stock issued and outstanding as of July 29, 2016.

CareDx, Inc.

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ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CareDx, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share data)

	June 30, 2016	December 31, 2015 (Note 2)
Assets		
Current assets:		
Cash and cash equivalents	$17,144	$29,888
Accounts receivable	4,887	2,367
Inventory	8,651	766
Prepaid and other assets	1,779	1,341
Total current assets	32,461	34,362
Property and equipment, net	3,413	2,425
Intangible assets, net	36,344	6,650
Goodwill	28,072	12,005
Restricted cash	143	147
Other noncurrent assets	20	49
Total assets	$100,453	$55,638
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$3,339	$1,644
Accrued payroll liabilities	2,944	2,366
Accrued and other liabilities	7,695	2,892
Accrued royalties	261	242
Deferred revenue	65	142
Deferred purchase consideration	5,807	—
Current portion of long-term debt	18,135	2,866
Total current liabilities	38,246	10,152
Deferred rent, net of current portion	1,526	1,426
Deferred revenue, net of current portion	749	703
Deferred tax liability	7,729	—
Long-term debt, net of current portion	10,072	12,887
Contingent consideration	638	948
Common stock warrant liability	8,122	—
Other liabilities	861	28
Total liabilities	67,943	26,144
Commitments and contingencies (Note 9)		
Stockholders' equity:		

Preferred stock: $0.001 par value; 10,000,000 shares authorized at June 30, 2016 and December 31, 2015; no shares issued and outstanding at June 30, 2016 and December 31, 2015	—	—
Common stock: $0.001 par value; 100,000,000 shares authorized at June 30, 2016 and December 31, 2015; 18,925,076 shares and 11,902,363 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	19	12
Additional paid-in capital	226,593	202,564
Accumulated other comprehensive loss	(1,408)	—
Accumulated deficit	(193,305)	(173,082)
Total CareDx, Inc. stockholders' equity	31,899	29,494
Noncontrolling interest	611	—
Total stockholders’ equity	32,510	29,494
Total liabilities and stockholders’ equity	$100,453	$55,638

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

CareDx, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Testing revenue	$7,249	$7,044	$13,704	$14,139
Product revenue	3,475	—	3,475	—
Collaboration, license and other revenue	11	85	118	205
Total revenue	10,735	7,129	17,297	14,344
Operating expenses:				
Cost of testing	2,852	2,508	5,624	5,218
Cost of product	3,056	—	3,056	—
Research and development	3,143	2,510	6,302	3,931
Sales and marketing	3,356	2,526	5,093	4,549
General and administrative	5,393	2,329	11,070	5,034
Change in estimated fair value of contingent consideration	(97)	142	(310)	(111)
Total operating expenses	17,703	10,015	30,835	18,621
Loss from operations	(6,968)	(2,886)	(13,538)	(4,277)
Interest expense	(526)	(256)	(783)	(1,083)
Other expense	(274)	(43)	(3,200)	(97)
Change in estimated fair value of common stock warrant liability	(3,165)	—	(3,165)	—
Loss before income taxes	(10,933)	(3,185)	(20,686)	(5,457)
Income tax benefit	440	—	440	—
Net loss	(10,493)	(3,185)	(20,246)	(5,457)
Net loss attributable to noncontrolling interest	23	—	23	—
Net loss attributable to CareDx, Inc.	$(10,470)	$(3,185)	$(20,223)	$(5,457)
Net loss per share attributable to CareDx, Inc. (Note 3):				
Basic and diluted	$(0.77)	$(0.27)	$(1.58)	$(0.46)
Weighted average shares used to compute net loss per share attributable to CareDx, Inc.:				
Basic and diluted	13,568,120	11,835,405	12,768,913	11,824,993

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

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CareDx, Inc.

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	$(10,493)	$(3,185)	$(20,246)	$(5,457)
Other comprehensive loss:				
Foreign currency translation adjustments, net of tax	(1,408)	—	(1,408)	—
Net Comprehensive loss	(11,901)	(3,185)	(21,654)	(5,457)
Comprehensive loss attributable to noncontrolling interest	23	—	23	—
Comprehensive loss attributable to CareDx, Inc.	$(11,878)	$(3,185)	$(21,631)	$(5,457)

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

CareDx, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2016	2015
Operating activities:		
Net loss	$ (20,246)	$ (5,457)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,097	358
Amortization of inventory fair market value adjustment	1,225	—
Stock-based compensation	812	692
Amortization of deferred revenue	(31)	(59)
Amortization of debt discount and noncash interest expense	56	450
Revaluation of contingent consideration to estimated fair value	(310)	(111)
Revaluation of common stock warrant liability to estimated fair value	3,165	—
Changes in operating assets and liabilities:		
Accounts receivable	(982)	981
Inventory	236	(45)
Prepaid and other assets	845	(108)
Accounts payable	(336)	(116)
Accrued payroll liabilities	39	367
Accrued royalties	18	27
	2,153	274

Accrued and other liabilities						
Net cash used in operating activities		(12,259	)		(2,747	)
Investing activities:						
Purchase of property and equipment		(276	)		(733	)
Acquisition of business, net of cash acquired		(20,567	)		—	
Net cash used in investing activities		(20,843	)		(733	)
Financing activities:						
Proceeds from debt, net of issuance costs		—			15,625	
Proceeds from private placement and subsequent financing, net of issuance costs		20,619			—	
Proceeds from issuance of common stock under employee stock purchase plan		175			—	
Principal payments on debt and capital lease obligations		(428	)		(11,724	)
Proceeds from exercise of stock options		9			42	
Net cash provided by financing activities		20,375			3,943	
Effect of exchange rate changes on cash and cash equivalents		(17	)		—	
Net (decrease) increase in cash and cash equivalents		(12,744	)		463	
Cash and cash equivalents at beginning of period		29,888			36,431	
Cash and cash equivalents at end of period	$	17,144		$	36,894	
Supplemental disclosure of cash flow information:						
Deferred purchase consideration	$	5,700		$	—	
Debt assumed as part of acquisition	$	13,421		$	—	
	$	7,205		$	—	

Common shares issued as part of acquisition							

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

CareDx, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

CareDx, Inc., ("CareDx" or the "Company") together with its subsidiaries acquired in the acquisition of Allenex AB ("Allenex" or "Olerup"), is global transplant diagnostics company with product offerings along the pre- and post-transplant continuum. The Company focuses on discovery, development and commercialization of clinically differentiated, high-value diagnostic surveillance solutions for transplant patients. In post-transplant diagnostics, the Company offers AlloMap®, which is a heart transplant molecular test ("AlloMap"). In pre-transplant diagnostics, the Company offers Olerup SSP®, a set of Human Leukocyte Antigen ("HLA") typing used prior to hematopoietic stem cell/bone marrow transplantation and organ transplantation.

AlloMap is a gene expression test that helps clinicians monitor and identify heart transplant recipients with stable graft function who have a low probability of moderate to severe acute cellular rejection. Since 2008, the Company has sought to expand the adoption and utilization of its AlloMap solution through ongoing studies to substantiate the clinical utility and actionability of AlloMap, secure positive reimbursement decisions for AlloMap from large private and public payers, develop and enhance its relationships with key members of the transplant community, including opinion leaders at major transplant centers, and explore opportunities and technologies for the development of additional solutions for post-transplant surveillance. The Company believes the use of AlloMap, in conjunction with other clinical indicators, can help healthcare providers and their patients better manage long-term care following a heart transplant. In particular, the Company believes AlloMap can improve patient care by helping healthcare providers avoid the use of unnecessary, invasive surveillance biopsies and determine the appropriate dosage levels of immunosuppressants. AlloMap has received 510(k) clearance from the U.S. Food and Drug Administration, (the "FDA"), for marketing and sale as a test to aid in the identification of recipients with a low probability of moderate or severe acute cellular rejection. A 510(k) submission is a premarketing submission made to the FDA. Clearance may be granted by the FDA if it finds the device or test provides satisfactory evidence pertaining to the claimed intended uses and indications for the device or test. The Company is also pursuing the development of additional products for transplant monitoring using a variety of technologies, including AlloSure®, its proprietary next-generation sequencing-based test to detect donor-derived cell-free DNA, ("dd-cfDNA"), after transplantation. Through the acquisition of ImmuMetrix, Inc. ("IMX"), a privately held development-stage company working on dd-cfDNA-based solutions in transplantation and other fields, the Company added to its existing know-how, expertise, and intellectual property the ability to apply dd-cfDNA technology to the surveillance of transplant recipients, which has contributed to the development of AlloSure.

With the acquisition of Allenex, the Company develops, manufactures, markets and sells high quality products that increase the chance of successful transplants by facilitating a better match between a donor and a recipient of stem cells and organs. Olerup SSP is used to type HLA alleles based on the sequence specific primer ("SSP") technology, has a market in Europe and selected other markets for pre-transplant solutions. The Company also offers XM-ONE®, a standardized test that identifies a patient's antigens against HLA Class I or Class II, as well as antibodies against a donor's endothelium. This cross-match test has primarily been used prior to kidney transplants. The Company, by way of Olerup's sales and distribution agreement with Conexio Genomics (since acquired by Illumina, Inc.) offers a complete product range for sequence-based typing ("SBT") of HLA alleles. SBT Resolver is a test kit for sequence based HLA typing, while AssignSBT is the companion software for sequence analysis. Because this SBT technology

is primarily used in larger typing laboratories, it is a good complement to SSP technology, which is a more natural fit at smaller centers. In 2014, Olerup began active development of a new HLA typing product, QTYPE, that uses real-time PCR (q-PCR) methodology. This technology is based on SSP technology, which Olerup was well-situated to develop.

The Company’s headquarters are in Brisbane, California; and primary operations are in Brisbane and Stockholm, Sweden; and it operates in two reportable segments.

Liquidity and Going Concern

The Company has incurred significant losses and negative cash flows from operations since its inception and had an accumulated deficit of $193.3 million at June 30, 2016. As of June 30, 2016, the Company had cash and cash equivalents of $17.1 million, and $28.2 million of debt outstanding under its debt and capital lease obligations, net of debt discount and issuance costs.

On April 14, 2016, the Company acquired 98.3% of the outstanding common stock of Allenex. Allenex has 58 employees. Under the terms of the Conditional Share Purchase Agreements entered into on December 16, 2015, as amended, and the tender offer prospectus dated March 7, 2016, and as a result of the tender offer, the aggregate purchase consideration paid by the Company was approximately $34.1 million and consisted of (i) $26.9 million of cash, of which approximately $5.7 million was deferred purchase consideration and payable to Midroc Invest AB, FastPartner AB and Xenella Holding AB (collectively, the "Majority Shareholders") by no later than March 31, 2017, and (ii) the issuance of 1,375,029 shares of the Company's common stock valued at $7.2 million. Of the total cash consideration, $8.0 million of cash payable to the Majority Shareholders was deposited into an escrow account by the Company and subsequently invested in the Company by the Majority Shareholders through a purchase of the Company's equity securities in a financing that was completed on June 15, 2016 (the "Subsequent Financing"). Upon the completion of the Subsequent Financing, certain contingencies in the Conditional Share Purchase Agreements were waived, and the deferred purchase consideration is payable to the Majority Shareholders by no later than March 31, 2017. The Company determined at the date of the acquisition that these contingencies would be waived. The Company intends to complete compulsory acquisition proceedings under Swedish law to purchase the remaining shares of Allenex. On June 8, 2016, the Company delisted Allenex's common stock from Nasdaq Stockholm. See Note 5 for more detail about the Allenex acquisition.

On April 14, 2016, the Company completed the sale of 591,860 units ("Units") to certain accredited investors (the "Private Placement") at a purchase price of $23.94 per Unit. Each Unit was comprised of (i) one share of the Company's common stock, (ii) five shares of Series A Mandatorily Convertible Preferred Stock ("Series A Preferred"), and (iii) three warrants, each to purchase one share of the Company's common stock. The aggregate gross proceeds to the Company from the Private Placement were approximately $14.2 million. Concurrently, the Company also entered into commitment letters (the "Commitment Letters") pursuant to which the Majority Shareholders purchased the Company's equity securities in the Subsequent Financing. The Company made payments of approximately $1.1 million and $97,000 in placement fees and other offering expenses, respectively, to placement agents in connection with the sale of the 591,860 Units in the Private Placement. Following the closing of the Private Placement, the Company agreed to a number of requirements, including submitting the Private Placement to the Company's stockholders for approval pursuant to the rules of The NASDAQ Stock Market LLC (the "Requisite Stockholder Approval"), which was obtained on June 16, 2016, and granting certain registration rights, including the registration of shares sold in the Private Placement on a registration statement on Form S-3. Upon obtaining the Requisite Stockholder Approval on June 16, 2016, each share of Series A Preferred was converted into one share of the Company's common stock. On May 27, 2016, the Company filed a registration statement on Form S-3 (the "2016 Form S-3") with the Securities and Exchange Commission (the "SEC") to register for resale the shares of common stock issued or issuable upon conversion of the Series A Preferred and upon exercise of the warrants sold in the Private Placement. The 2016 Form S-3 was declared effective by the SEC on July 12, 2016. On June 15, 2016, the Company completed the Subsequent Financing for the sale of an additional 334,169 Units to the Majority Shareholders. The aggregate gross proceeds to the Company from the Subsequent Financing were $8.0 million. Securities issued in the Subsequent Financing were issued and sold at the same price and upon substantially the same terms as the Units issued in the Private Placement. See Note 13 for more detail about the Private Placement and Subsequent Financing.

The Company will require additional financing and/or refinancing of its current debt obligations to fund working capital, repay debt and pay its obligations. The Company may pursue financing and refinancing opportunities in both the private and public debt and equity markets through sales of debt or equity securities. Additional financing might include one or more offerings and one or more of a combination of discounted or at-the-market common stock, securities convertible into or exchangeable for shares of common stock, warrants, or other rights to purchase or acquire common stock.

Due to insufficient working capital in Allenex, a debt covenant in the Term Loan Facility relating to maintaining an adequate leverage ratio was violated at June 30, 2016. The Company obtained a waiver from Danske Bank A/S

("Danske") for this violation of the debt covenant. While Allenex received a waiver from Danske for the violation as of June 30, 2016, due to continuing liquidity matters, Allenex has determined that it is not probable that it will be in compliance with this covenant in future periods. For these reasons, the long-term debt was reclassified to current liabilities and resulted in a reduction in working capital. Additionally, if the loan was no longer available or Danske demanded repayment of the debt, the Company may not have sufficient capital to operate and there would be substantial doubt about its ability to continue as a going concern.

On June 10, 2016, the Centers for Medicare and Medicaid Services ('CMS"), announced proposed changes in reimbursement for a number of established molecular diagnostic tests, including AlloMap. Under the draft fee schedule, which would become effective on January 1, 2017, AlloMap reimbursement from CMS for patients covered by Medicare would be reduced from $2,821 to $732. The draft fee schedule was subject to an open comment period through August 10, 2016, and has not yet been adopted as final. The Company provided comments to CMS. If the current proposal is adopted, it could cause the Company to discontinue testing for Medicare patients. Given the significant portion of payments to the Company represented by Medicare, any resulting lower test revenue would have a material adverse effect on the Company's operations.

Absent additional and sufficient financing, in addition to Danske not demanding repayment of the outstanding debt, the Company will likely exhaust its cash and cash equivalents in the quarter ending December 2016 unless the Company substantially reduces its costs and operations, including research and development activities, marketing activities and programs, and other general and administrative expenses. As a result of the Company's obligations and lack of immediately available financial resources, there is uncertainty regarding the Company's ability to maintain liquidity sufficient to operate its business effectively, which raises substantial doubt about the Company's ability to continue as a going concern. If the Company is unsuccessful in its efforts to raise outside financing or refinance the Company's indebtedness in the near term, the Company will be required to significantly reduce or cease operations.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern through December 31, 2016, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements do not reflect any adjustments relating to the recoverability and reclassifications of assets and liabilities that might be necessary if the Company is unable to continue as a going concern.

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 follow the requirements of the SEC for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. These financial statements have been prepared on the same basis as the Company's annual financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments that are necessary for a fair statement of the Company's financial information. The condensed consolidated balance sheet as of December 31, 2015 has been derived from audited financial statements as of that date but does not include all of the financial information required by U.S. GAAP for complete financial statements. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions have been eliminated. Since the Company owns less than 100% of the shares of Allenex, the Company records net loss attributable to noncontrolling interest in its condensed consolidated statements of operations equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties.

The accompanying unaudited condensed consolidated financial statements reported on this quarterly report on Form 10-Q for the three and six months ended June 30, 2016 differ from the preliminary financial results for the three and six months ended June 30, 2016 reported in the Company's press release on August 10, 2016 because of adjustments and reclassifications made by the Company as part of completing its accounting close process. The accompanying unaudited condensed consolidated financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended December 31, 2015 included in the Company's Annual Report on Form 10-K, as amended, originally filed on March 29, 2016 with the SEC.

Use of Estimates

The preparation of unaudited condensed consolidated 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 and the reported amounts of revenues and expenses in the unaudited condensed consolidated financial statements and accompanying notes. On an ongoing basis, management evaluates its estimates, including those related to (i) revenue recognition, (ii) the differences between amounts billed and estimated receipts from payers, (iii) the determination of the accruals for clinical studies, (iv) the determination of refunds to be requested by third-party payers, (v) the fair value of assets and liabilities, (vi) inventory valuation, (vii) the valuation of warrants, Series A Preferred, and common stock issued in the Private Placement and Subsequent Financing, (viii) the fair value of contingent consideration in a business acquisition, (ix) the fair value of embedded derivatives, (x) measurement of stock-based compensation expense, (xi) the determination of the valuation allowance and estimated tax benefit associated with deferred tax assets and net deferred tax liability, (xii) any impairment of long-lived assets, including in-process technology and goodwill, and (xiii) legal contingencies. Actual results could differ from those estimates.

Concentrations of Credit Risk and Other Risks and Uncertainties

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company’s policy is to invest its cash and cash equivalents in money market funds, obligations of U.S. government agencies and government-sponsored entities, commercial paper, and various bank deposit accounts. As of June 30, 2016, these financial instruments

were held in Company accounts at five financial institutions. The counterparties to the agreements relating to the Company's investments consist of financial institutions of high credit standing. The Company is exposed to credit risk in the event of default by the financial institutions to the extent of amounts recorded on the balance sheets which may be in excess of insured limits.

The Company is also subject to credit risk from its accounts receivable which are derived from revenue earned from AlloMap tests provided for patients located primarily in the U.S. and billed to various third-party payers, and sales of Olerup SSP products to distributors, strategic partners and end customers in Europe, Middle East and Africa, the U.S., and Latin America and other. The Company has not experienced any significant credit losses and does not generally require collateral on receivables. For the six months ended June 30, 2016 and 2015, approximately 48% and 50%, respectively, of testing revenue was derived from Medicare. No other payers represented more than 10% of testing revenue for these periods. Product revenue accounted for 20% of total revenue for the six months ended June 30, 2016. At June 30, 2016, Medicare and Aetna accounted for approximately 22% and 10% of accounts receivable, respectively. At December 31, 2015, Medicare and Aetna accounted for approximately 35% and 21% of accounts receivable, respectively. No other payers represented more than 10% of accounts receivable at either June 30, 2016 or December 31, 2015.

Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less from the date of purchase. Cash equivalents consist primarily of amounts invested in money market funds.

Purchased Intangible Assets

Amortizable intangible assets include customer relationships, developed technology, trademarks, contracts and in-process research and development ("IPR&D") identified intangible assets acquired as part of a business combination. Intangible assets subject to amortization are amortized over their estimated useful lives. Acquired intangible assets with indefinite useful lives are related to IPR&D, projects and are measured at their respective fair values as of the acquisition date. The Company does not amortize intangible assets with indefinite useful lives. Intangible assets related to IPR&D projects are considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. If and when development is complete, which generally occurs if and when regulatory approval to market a product is obtained, the associated assets would be deemed finite-lived and would then be amortized based on their respective estimated useful lives at that point in time.

The Company tests IPR&D for impairment on an annual basis and in between annual tests if it becomes aware of events or changes that would indicate that it is more likely than not that the fair value of the assets is below their carrying amounts. The IPR&D annual impairment test is performed as of December 1 of each fiscal year. If the fair value exceeds the carrying value, then there is no impairment. Impairment losses on indefinite-lived intangible assets are recognized based solely on a comparison of the fair value of an asset to its carrying value, without consideration of any recoverability test. The Company has not identified any such impairment losses to date.

Impairment of Long-lived Assets

The Company evaluates its long-lived assets for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The Company recognizes an impairment loss when the total estimated future undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value determined using discounted estimates of future cash flows. The Company has not identified any such impairment losses to date.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired, less liabilities assumed. Goodwill is not subject to amortization, but is tested for impairment on an annual basis and whenever events or changes in circumstances indicate the carrying amount of these assets may not be recoverable.

The Company has determined that it operates in two reportable segments and has two reporting units associated with the development and commercialization of diagnostic products. In the event the Company determines that it is more likely than not that the carrying value of a reporting unit is higher than its fair value, quantitative testing is performed comparing recorded values to estimated fair values. If impairment is present, it is measured as the excess of recorded goodwill over its implied fair value. The Company performs its annual evaluation of goodwill on December 1 of each fiscal year. There have been no impairments recorded to date.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which the Company would transact, and it takes into consideration the assumptions that market participants would use when pricing the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement of an asset or liability requires management to make judgments and to consider specific characteristics of that asset or liability.

The carrying amounts of certain of the Company's financial instruments, including cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate fair value due to their short maturities.

Testing Revenue

The Company recognizes revenues for tests delivered when the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery has occurred or services rendered; (iii) the fee is fixed or determinable; and (iv) collectability is reasonably assured.

For testing revenue, the first criterion is satisfied when a third-party payer makes a coverage decision or enters into a contractual arrangement with the Company for the test. The second criterion is satisfied when the Company performs the test and delivers the test result to the ordering physician. The third criterion is satisfied if the third-party payer's coverage decision or reimbursement contract specifies a price for the test. The fourth criterion is satisfied based on management's judgments regarding the collectability of the fees charged under the arrangement. Such judgments include review of past payment history. AlloMap testing may be considered investigational by some payers and not covered under their reimbursement policies. Others may cover the test, but not pay a set or determinable amount. As a result, in the absence of a reimbursement agreement or sufficient payment history, collectability cannot reasonably be assured so revenue is not recognized at the time the test is delivered.

If all of the criteria set forth above are met, revenue is recognized. When the first, third or fourth criteria are not met but third-party payers make a non-refundable payment to the Company for tests performed, the Company recognizes revenue on the cash basis in the period in which the payment is received.

Revenue for tests performed is recognized on the accrual basis net of adjustments for differences between amounts billed and the estimated receipts from payers. The amount the Company expects to collect may be lower than the agreed upon amount due to several factors, such as the amount of patient co-payments, the existence of secondary payers and claim denials. Estimated receipts are based upon historical payment practices of payers. Differences between estimated and actual cash receipts are recorded as an adjustment to revenue, which have been immaterial to date.

During the three and six months ended June 30, 2016, the Company changed its method of revenue recognition from one and two of its payers, respectively, from the cash basis to the accrual basis based on its consistent history of obtaining timely reimbursement from such payers. The Company also changed its method of revenue recognition from the cash basis to the accrual basis with respect to one and three of its payers, respectively, during the three and six months ended June 30, 2015 based on the Company's consistent history of obtaining timely reimbursement from such payers. The impact of this change in accounting estimate was to increase revenues by $0.3 million for both the three and six months ended June 30, 2016, and to reduce net loss per share by $0.02 and $0.03 for the three and six months ended June 30, 2016, respectively. For the three and six months ended June 30, 2015, the impact of this change in accounting estimate was to increase revenues by $79,000 and $0.1 million, respectively, and to reduce net loss per share by $0.01 for both periods.

Product Revenue

Product revenue is recognized from the sale of products to end-users, distributors and strategic partners when persuasive evidence of an arrangement exists, the product is complete and tested and has been shipped or delivered, as required to transfer title and risk of loss, the sales price is fixed and determinable, collection of the resulting receivable is reasonably assured, there are no material contingencies and the Company does not have significant obligations for future performance. When collectability is not reasonably assured, the Company defers the revenue until the cash is received. Provisions for estimated future product returns and allowances are recorded in the period of the sale based on the historical and anticipated future rate of returns. Revenue is recorded net of any discounts or trade-in allowances given to the buyer.

Collaboration, License and Other Revenue

The Company has generated revenue from collaboration and license agreements. Collaboration and license agreements may include non-refundable upfront payments, partial or complete reimbursement of research and development costs, contingent payments based on the occurrence of specified events under the agreements, license fees and royalties on sales of products or product candidates if they are successfully commercialized. The Company's performance obligations under its collaborations may include the transfer of intellectual property rights in the form of licenses, obligations to provide research and development services and obligations to participate on certain development committees with the collaboration partners. The Company makes judgments that affect the periods over which it recognizes revenue. The Company periodically reviews its estimated periods of performance based on the progress under each arrangement and accounts for the impact of any change in estimated periods of performance on a prospective basis.

The Company recognizes contingent consideration received from the achievement of a substantive milestone in its entirety in the period in which the milestone is achieved, which the Company believes is consistent with the substance of its performance under its various license and collaboration agreements. The Company did not recognize any revenue connected with milestones during the three and six months ended June 30, 2016 and 2015.

Cost of Testing

Cost of testing reflects the aggregate costs incurred in delivering the Company's AlloMap test results to clinicians. The components of cost of testing are materials and service costs, direct labor costs, including stock-based compensation, equipment and infrastructure expenses associated with testing samples on-site, logistics and specimen processing charges to collect and transport samples and allocated overhead including rent, information technology, equipment depreciation, utilities and royalties. Costs associated with performing tests (except royalties) are recorded as the test is processed regardless of whether and when the testing revenue is recognized with respect to that test. As a result, the Company's cost of testing as a percentage of revenue may vary significantly from period to period because the Company does not recognize all revenue in the period in which the associated costs are incurred. Royalties for licensed technology, calculated as a percentage of test revenues, are recorded as license fees in cost of testing at the time the test revenues are recognized.

Cost of Product

Cost of product reflects the aggregate costs incurred in delivering the Company's products to customers. The components of cost of product are materials costs, manufacturing and kit assembly costs, direct labor costs, including equipment and infrastructure expenses associated with preparing kitted products for shipment, shipping, and allocated overhead including rent, information technology, equipment depreciation, and utilities. Cost of product also includes amortization of acquired developed technology and adjustments to inventory values, including write-down of impaired, slow moving or obsolete inventory.

Business Combinations

The Company determines and allocates the purchase price of an acquired business to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the business combination date, including identifiable intangible assets which either arise from a contractual or legal right or are separable from goodwill. The Company bases the estimated fair value of identifiable intangible assets acquired in a business combination on independent valuations that use information and assumptions provided by management, which consider management's best estimates of inputs and assumptions that a market participant would use. The Company allocates any excess purchase price over the estimated fair value assigned to the net tangible and identifiable intangible assets acquired and liabilities assumed to goodwill. The use of alternative valuation assumptions, including estimated revenue projections, growth rates, royalty rates, cash flows, discount rates, estimated useful lives and

probabilities surrounding the achievement of contingent milestones could result in different purchase price allocations and amortization expense in current and future periods.

In those circumstances where an acquisition involves a contingent consideration arrangement that meets the definition of a liability under Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 480, Distinguishing Liabilities from Equity, the Company recognizes a liability equal to the fair value of the contingent payments the Company expects to make as of the acquisition date. The Company remeasures this liability each reporting period and records changes in the fair value as a component of operating expenses.

Transaction costs associated with acquisitions are expensed as incurred in general and administrative expenses. Results of operations and cash flows of acquired companies are included in the Company's operating results from the date of acquisition.

Stock-based Compensation

The Company uses the Black-Scholes Model, which requires the use of estimates such as stock price volatility and expected option lives, to value employee stock options. The Company estimates the expected option lives using historical data, volatility using its own historical stock prices and stock prices of peer companies in the diagnostics industry, risk-free rates using the implied yield currently available in the U.S. Treasury zero-coupon issues with a remaining term equal to the expected option lives, and dividend yield using the Company's expectations and historical data. The fair value of each restricted stock unit is calculated based upon the closing price of the Company's common stock on the date of the grant.

The Company uses the straight-line attribution method for recognizing compensation expense. Compensation expense is recognized on awards ultimately expected to vest and reduced for forfeitures that are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on the Company's historical experience.

Compensation expense for stock options issued to nonemployees is calculated using the Black-Scholes Model and is recorded over the service performance period. Options subject to vesting are required to be periodically remeasured over their service performance period, which is generally the same as the vesting period.

Warrants

On April 14, 2016 and June 15, 2016, the Company completed the Private Placement and Subsequent Financing, respectively (as described in Note 13), which included the issuance of freestanding warrants to certain accredited investors and placement agents to purchase shares of the Company's common stock. The exercisability of the warrants was contingent upon the receipt of the Requisite Stockholder Approval, which occurred on June 16, 2016.

The freestanding warrants issued pursuant to the Private Placement and Subsequent Financing are contingently redeemable and classified as liabilities on the condensed consolidated balance sheet and recorded at their estimated fair value. The warrants were remeasured on June 30, 2016 and will be remeasured at each subsequent balance sheet date with changes recorded in change in estimated fair value of common stock warrant liability on the condensed consolidated statements of operations.

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the local currency for each entity, including the Swedish Krona and the Euro. The revenue and expenses of such subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange on the balance sheet date. The resulting cumulative translation adjustments are reported in other comprehensive loss. Foreign currency transaction gains and losses are recognized in current operations.

Comprehensive Loss

Comprehensive loss consists of net loss and other gains and losses affecting stockholders' equity that, under U.S. GAAP, are excluded from net income or loss. For the Company, such items consist of foreign currency translation gains and losses.

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This guidance requires the Company to evaluate whether there are conditions and events that raise substantial doubt about its ability to continue as a going concern within one year after the financial statements are issued, and if there is substantial doubt about the Company's ability to continue as a going concern, the disclosure of such is required. The Company is required to make this evaluation for both annual and interim reporting periods, if applicable. The Company also is required to evaluate and disclose whether its plans alleviate that doubt. This guidance is effective for annual periods ending after December 15, 2016, and annual and interim periods thereafter. Early adoption is permitted. The Company is currently assessing the impact of this guidance on its condensed financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles—Goodwill and Other—Internal Use Software (Subtopic 350-40). This updated standard provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software

license, the customer should account for the arrangement as a service contract. An entity can elect to adopt the amendments either (i) prospectively to all arrangements entered into or materially modified after the effective date or (ii) retrospectively. For prospective transition, the only disclosure requirements at transition are the nature of and reason for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change. For retrospective transition, the disclosure requirements at transition include the requirements for prospective transition and quantitative information about the effects of the accounting change. The Company adopted this guidance as of January 1, 2016 as required using the prospective method. There have been no new or existing arrangements that were materially modified following the date of adoption.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. The guidance is effective for the Company beginning on January 1, 2017 with early adoption permitted as of the beginning of any interim or annual reporting period, and it may be applied either (1) prospectively to all deferred tax assets and liabilities or (2) retrospectively to all periods presented. If an entity applies the guidance prospectively, the entity should disclose in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If an entity applies the guidance retrospectively, the entity is required to disclose in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods. The Company adopted this guidance early as of January 1, 2016 prospectively, which required its deferred tax assets and liabilities to be reclassified from other current assets and liabilities to their respective noncurrent categories on its condensed balance sheets. As of June 30, 2016, the Company has recorded a net noncurrent deferred tax liability of approximately $7.7 million attributable to the acquisition of Allenex. The adoption of this guidance did not result in any material impact on the Company’s condensed financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which, for operating leases, requires the lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The guidance also requires a lessee to recognize single lease costs, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. This guidance will be effective for the Company in fiscal year 2019 and must be adopted using a modified retrospective transition approach. Early adoption is permitted. The Company is currently assessing the impact of this guidance.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments, to clarify when a contingent put or call option to accelerate the repayment of debt is an embedded derivative. The guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. The adoption of this guidance is on a modified retrospective basis. The Company is currently assessing the impact of this guidance on its condensed financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting (Topic 718),” to simplify various aspects of share-based payment accounting and presentation. The new standard requires entities to record all of the tax effects related to share-based payments at settlement (or expiration) through the income statement. This will require the Company to reclassify tax benefits in excess of compensation cost (“windfalls”) and tax deficiencies (“shortfalls”) to the extent of previous windfalls from Capital in excess of par value to Provision for income tax expense. This change is required to be applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption of the ASU. The standard eliminates the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. This change is required to be applied on a modified retrospective basis, with a cumulative-effect adjustment to opening retained earnings. In addition, all income tax-related cash flows resulting from share-based payments are required to be reported as operating activities on the statement of cash flows as opposed to the current presentation as an inflow from financing

activities and an outflow from operating activities. Either prospective or retrospective transition of this provision is permitted. Finally, the standard clarifies that all cash payments made to taxing authorities on the employees' behalf for withheld shares should be presented as financing activities on the statement of cash flows. This change will be applied retrospectively. This guidance is effective for annual reporting periods beginning after December 15, 2016 and interim periods within that reporting period. Early adoption is permitted, with any adjustments reflected as of the beginning of the fiscal year of adoption. The Company is continuing to review the requirements of this standard and any potential impact it may have on the Company's financial position, results of operations, or cash flows.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10"). In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). These amendments provide additional clarification and implementation guidance on the previously issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products are transferred to customers. The amendments in ASU 2016-10 provide clarifying guidance on materiality of performance obligations; evaluating distinct performance obligations; treatment of shipping and handling costs; and determining whether an entity's promise to grant a license provides a customer with either a right to use an entity's intellectual property or a right to access an entity's intellectual property. The amendments in ASU 2016-08 clarify how an entity

should identify the specified good or service for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The adoption of ASU 2016-10 and ASU 2016-08 is required to coincide with an entity's adoption of ASU 2014-09, which the Company intends to adopt for interim and annual reporting periods beginning after December 15, 2017, as required. The guidance may be applied (1) retrospectively to each prior period presented or (2) retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact that this guidance will have on its condensed financial statements.

3. NET LOSS PER SHARE

Basic and diluted net loss per share have been computed by dividing the net loss by the weighted-average number of common shares outstanding during the period, without consideration of common share equivalents as their effect would have been antidilutive.

The following tables set forth the computation of the Company's basic and diluted net loss per share (in thousands, except shares and per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Net loss attributable to CareDx, Inc.	$(10,470)	$(3,185)	$(20,223)	$(5,457)
Denominator:				
Weighted-average shares used to compute basic and diluted net loss per share attributable to CareDx, Inc.	13,568,120	11,835,405	12,768,913	11,824,993
Net loss per share attributable to CareDx, Inc.:				
Basic and diluted	$(0.77)	$(0.27)	$(1.58)	$(0.46)

The following potentially dilutive securities have been excluded from diluted net loss per share, because their effect would be antidilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares of common stock subject to outstanding options	1,842,110	1,515,154	1,842,110	1,515,154
Shares of common stock subject to outstanding common stock warrants	3,279,157	576,096	3,279,157	576,096
Restricted stock units	285,445	112,800	285,445	112,800
Total common stock equivalents	5,406,712	2,204,050	5,406,712	2,204,050

The Company issued 2,959,300 shares of preferred stock pursuant to the Private Placement and Subsequent Financing, which were completed on April 14, 2016 and June 15, 2016, respectively. All of the preferred stock was converted to common stock following receipt of the Requisite Stockholder Approval on June 16, 2016. As of June 30, 2016, there was no preferred stock outstanding.

4. FAIR VALUE MEASUREMENTS

The Company records its financial assets and liabilities at fair value except for its debt, which is recorded at amortized cost. The carrying amounts of certain financial instruments of the Company, including cash and cash equivalents, prepaid expenses and other current assets, accounts payable and accrued liabilities, approximate fair value due to their relatively short maturities. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

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

The following table sets forth the Company's financial assets and liabilities measured at fair value on a recurring basis (in thousands):

	June 30, 2016 Fair Value Measured Using			
	(Level 1)	(Level 2)	(Level 3)	Total Balance
Assets				
Money market funds	$14,034	$ —	$ —	$14,034
Liabilities				
Contingent consideration	$—	$ —	$ 638	$638
Warrants to purchase common stock	—	—	8,122	8,122
Total liabilities	$—	$ —	$ 8,760	$8,760

	December 31, 2015 Fair Value Measured Using			
	(Level 1)	(Level 2)	(Level 3)	Total Balance
Assets				
Money market funds	$28,774	$ —	$ —	$28,774
Liabilities				
Contingent consideration	$—	$ —	$ 948	$948

The following table presents the issuances, changes in fair value and reclassifications of the Company's Level 3 financial instruments that are measured at fair value on a recurring basis (in thousands):

	(Level 3) Contingent Consideration Liability	Warrants to Purchase Common Stock	Total
Balance as of December 31, 2014	$1,074	$ —	$1,074
Change in estimated fair value	(126)	—	(126)
Balance as of December 31, 2015	948	—	948
Warrants issued in conjunction with Private Placement and Subsequent Financing and Placement Agent Warrants on April 14, 2016 and June 15, 2016, respectively	—	4,957	4,957
Change in estimated fair value	(310)	3,165	2,855
Balance as of June 30, 2016	$638	$ 8,122	$8,760

The Company recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers between Level 1, Level 2 and Level 3 categories during the periods presented.

In determining fair value, the Company uses various valuation approaches within the fair value measurement framework. The valuation methodologies used for the Company's instruments measured at fair value and their classification in the valuation hierarchy are summarized below:

- Money market funds - Investments in money market funds are classified within Level 1. At each of June 30, 2016 and December 31, 2015, money market funds were included on the balance sheets in cash and cash equivalents.

- Contingent consideration - As of June 30, 2016 and December 31, 2015, the Company had a contingent obligation to issue 227,845 shares of its common stock to the former owners of IMX in conjunction with its acquisition of IMX in June 2014. The issuance will occur if the Company completes 2,500 commercial tests involving the measurement of dd-cfDNA in organ transplant recipients in the United States by June 10, 2020. The Company recorded its estimate of the fair value of the contingent consideration based on its evaluation of the probability of achievement of the contractual conditions that would result in the payment of the contingent consideration. The fair value of the contingent consideration was estimated using the fair value of the shares to be paid if the contingency is met multiplied by management's estimate at June 30, 2016 and December 31, 2015 of the probability of success, which management estimated to be 65%. The significant input in the Level 3 measurement not supported by market activity is the Company's probability assessment of the milestone being met. The value of the liability is subsequently remeasured to fair value at each reporting date, and the change in estimated fair value is recorded to a component of operating expenses item captioned "change in estimated fair value of contingent consideration" until the milestone contingency is paid, expires or is no longer achievable. Increases (decreases) in the estimation of the probability percentage result in a directionally similar impact to the fair value measurement of the contingent consideration liability. The carrying amount of the contingent consideration liability represents its fair value.
- Warrants to purchase common stock – As of June 30, 2016, the Company had warrants to purchase 2,978,087 shares of common stock outstanding that it issued to certain accredited investors and its placement agents following the closing of the Private Placement on April 14, 2016 and Subsequent Financing on June 15, 2016. The common stock warrants are classified as liabilities within Level 3. The Company utilized a binomial-lattice pricing model (the Monte Carlo simulation model) that involved a market condition to estimate the fair value of the warrants. The application of the Monte Carlo simulation model required the use of a number of complex assumptions including the Company's stock price, expected life of the warrants, stock price volatility determined from the Company's historical stock prices and stock prices of peer companies in the diagnostics industry, and risk-free rates based on the implied yield currently available in the U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the warrants. The estimated fair value of the warrants was subsequently remeasured at June 30, 2016, and the change in estimated fair value of common stock warrant liability was recorded on the Company's condensed consolidated statements of operations.

The Company's liabilities classified as Level 3 were valued based on unobservable inputs and management's judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of the financial instruments.

The carrying values of the Company's debt approximates its fair value at June 30, 2016 and December 31, 2015 because the interest rate approximates market rates that the Company could obtain for debt with similar terms. The estimated fair value of the Company's debt is estimated using the net present value of the payments, discounted at an interest rate that is consistent with market interest rates, which is a Level 2 input.

5. BUSINESS COMBINATION

On April 14, 2016, the Company acquired 98.3% of the outstanding common stock of Allenex. Allenex is a transplant diagnostic company based in Stockholm, Sweden that develops, manufactures, and sells products that help match donor organs with potential recipients prior to transplantation. The acquisition of Allenex creates an international transplant diagnostics company with product offerings along the pre- and post-transplant continuum. The combined company has a presence and direct distribution channels in the US and Europe, with additional third party distributors in Europe and other markets around the world. Under the terms of the Conditional Share Purchase Agreements entered into on December 16, 2015, as amended and the tender offer prospectus dated March 7, 2016, and as a result

of the tender offer, the aggregate purchase consideration paid by the Company was approximately $34.1 million and consisted of (i) $26.9 million of cash, of which approximately $5.7 million was deferred purchase consideration payable to the Majority Shareholders by no later than March 31, 2017, and (ii) the issuance of 1,375,029 shares of the Company's common stock valued at $7.2 million. Of the total cash consideration, $8.0 million of cash payable to the Majority Shareholders was deposited into an escrow account by the Company and subsequently invested in the Company by the Majority Shareholders through a purchase of the Company's equity securities in the Subsequent Financing. Upon the completion of the Subsequent Financing, certain contingencies in the Conditional Share Purchase Agreements were waived, and the deferred purchase consideration is payable to the Majority Shareholders by no later than March 31, 2017. The Company determined at the date of the acquisition that these contingencies would be waived. The Company intends to complete compulsory acquisition proceedings under Swedish law to purchase the remaining shares of Allenex. On June 8, 2016, the Company delisted Allenex's common stock from Nasdaq Stockholm.

The cash portion of the acquisition purchase price was paid from the Company's general working capital. The acquisition of Allenex required and the Company obtained, a consent from East West Bank (the "Consent"), as the lender under the Company's Loan and Security Agreement, dated January 30, 2015, as amended (the "Loan Agreement"). The Consent was contingent upon the closing of a private placement financing for aggregate cash proceeds of at least $12.0 million and separately depositing into an escrow account cash of $8.0 million relating to a commitment by the Majority Shareholders to purchase the Company's equity securities in the

Subsequent Financing, all of which occurred on April 14, 2016. Pursuant to the Consent, the Company is also required to raise another $20.0 million through one or more equity financings by March 31, 2017, prior to paying the $5.7 million of deferred purchase price consideration to the Majority Shareholders.

The Company has accounted for this transaction as a business combination in exchange for total consideration of approximately $34.1 million. Under business combination accounting, the total purchase price was allocated to Allenex's net tangible and identifiable intangible assets based on their estimated fair values as of April 14, 2016 as set forth in the table below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The preliminary allocation of the purchase price was based upon a valuation, and the Company's estimates and assumptions are subject to change. The primary areas of the purchase price allocation that are not yet finalized relate to valuation of acquired inventory, income and non-income based taxes and residual goodwill. Total acquisition-related expenses for the three and six months ended June 30, 2016 were $1.6 million and $3.8 million, respectively.

The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about the facts and circumstances that existed as of the acquisition date. The final determination of the fair values of certain assets and liabilities will be completed within the measurement period of up to one year from the acquisition date, as permitted under U.S. GAAP. Any potential adjustments made could be material in relation to the values presented in the table below.

The preliminary fair values of the assets acquired and liabilities assumed are as follows (in thousands):

	Total
Cash	$596
Accounts receivable	1,608
Prepaid and other assets	1,092
Inventory	9,733
Property, plant and equipment	1,057
Intangible assets	31,560
Goodwill	16,786
Deferred tax liability	(8,525)
Assumed liabilities	(19,833)
Total preliminary acquisition consideration	$34,074

The fair value of the remaining 1.7% of noncontrolling interest in Allenex was estimated to be $0.6 million as of April 14, 2016. The fair value of the noncontrolling interest was determined based on the number of outstanding shares comprising the noncontrolling interest and Allenex's stock price of SEK 2.48 per share as of the acquisition date. The noncontrolling interest was presented as a component of stockholders' equity on the Company's condensed consolidated balance sheets.

Noncontrolling interest as of June 30, 2016 was as follows (in thousands):

	June 30,

	2016
Beginning noncontrolling interest	$—
Noncontrolloing interest investment	634
Loss attributable to noncontrolling interest	(23)
Ending noncontrolling interest	$611

The following table presents details of the identified intangible assets acquired at the acquisition date (in thousands):

	Estimated Fair Value	Estimated Useful Life (Years)
Customer relationships	$ 12,650	15
Developed technology	11,650	10
Acquired in-process technology	4,510	—
Trademarks	2,260	15
Acquired contracts	490	2
Total	$ 31,560	

Goodwill of $16.8 million recorded from the acquisition of Allenex is primarily related to expected synergies. The goodwill resulting from the acquisition is not deductible for tax purposes.

Allenex's post-acquisition results of operations for the period from April 14, 2016 through June 30, 2016 are included in the Company's condensed consolidated statements of operations. Since the acquisition date, total revenue of Allenex for the period from April 14, 2016 through June 30, 2016 was $3.5 million. Net loss for Allenex for the period from April 14, 2016 through June 30, 2016 was $1.4 million.

Pro Forma Impact of the Acquisition of Allenex

The following table presents pro forma results of operations and gives effect to the Allenex transaction as if the transaction had been consummated on January 1, 2015. The unaudited pro forma results of operations have been prepared for comparative purposes only and are not necessarily indicative of what would have occurred had the business combination been completed at the beginning of the period or of the results that may occur in the future. Furthermore, the pro forma financial information does not reflect the impact of any reorganization or operating efficiencies resulting from combining the two companies.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue:				
Testing revenue	$7,246	$7,044	$13,698	$14,140
Product revenue	4,027	4,024	7,887	8,062
Other revenue	100	163	288	356
Total revenue	$11,373	$11,231	$21,873	$22,558
Net loss	$(8,809)	$(5,097)	$(15,123)	$(8,504)
Weighted-average shares used to compute basic net loss per common share	11,835,405	11,835,405	11,824,993	11,824,993
Net loss per common share - basic and diluted	$(0.74)	$(0.43)	$(1.28)	$(0.72)

The unaudited pro forma financial information for the three and six months ended June 30, 2016 and 2015 is prepared using the acquisition method of accounting and has been adjusted to give effect to the pro forma events that are: (i) directly attributable to the acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results. The pro forma adjustments directly attributable to the acquisition exclude acquisition-related expenses of $3.8 million and debt financing costs of $2.9 million relating to a six-month bridge loan with Oberland Capital SA Davos LLC ("Oberland") that did not materialize, together with the consequential tax effects.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill is recorded when the purchase price of an acquisition exceeds the fair value of the net tangible and identified intangible assets acquired.

The following table presents details of the Company's goodwill for the six months ended June 30, 2016 (in thousands):

	CareDx	Allenex	Total
Balance as of December 31, 2015	$12,005	$—	$12,005
Goodwill acquired	—	16,786	16,786
Foreign currency translation adjustments	—	(719)	(719)
Balance as of June 30, 2016	$12,005	$16,067	$28,072

The gross carrying amount of goodwill may change due to the effects of foreign currency fluctuations as a result of acquiring an entity with a functional currency other than the U.S. dollar.

Intangible Assets

The following tables present details of the Company's intangible assets as of June 30, 2016 (in thousands):

	June 30, 2016				
	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Carrying Amount	Weighted Average Remaining Useful Life (In Years)
Intangible assets with finite lives:					
Customer relationships	$12,650	$ (175)	$ (547)	$ 11,928	14.5
Developed technology	11,650	(245)	(504)	10,901	9.5
Trademarks	2,260	(31)	(98)	2,131	14.5
Acquired contracts	490	(50)	(21)	419	1.8
Total intangible assets with finite lives	27,050	(501)	(1,170)	25,379	12.1
Acquired in-process technology dd-cfDNA	6,650	—	—	6,650	
Acquired in-process technology QTYPE	4,510	—	(195)	4,315	
Total intangible assets	$38,210	$ (501)	$ (1,365)	$ 36,344	

The gross carrying amount of intangible assets and the related amortization expense of intangible assets may change due to the effects of foreign currency fluctuations as a result of acquiring an entity with a functional currency other than the U.S. dollar. Amortization expense was $0.5 million for each of the three and six months ended June 30, 2016, of which $0.3 million was amortized to cost of product. There was no amortization recorded for the three and six months ended June 30, 2015, as the Company only had an intangible asset related to acquired in-process technology with an indefinite useful live in that period.

Intangible assets are carried at cost less accumulated amortization. Amortization expenses are recorded to cost of product and sales and marketing. Acquired IPR&D of $11.2 million has not reached technological feasibility as of June 30, 2016 and is therefore not subject to amortization. As such, the Company excluded amortization of acquired in-process technology from the future amortization expense table below.

The following table summarizes the Company's estimated future amortization expense of intangible assets with finite lives as of June 30, 2016 (in thousands):

Years Ending December 31,	Cost of Product	Sales and Marketing	Total
Remainder of 2016	$ 690	$ 485	$1,175
2017	1,381	970	2,351
2018	1,216	970	2,186

2019	1,147	970	2,117
2020	1,147	970	2,117
2021	1,147	970	