
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2021

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: 001-38683

GUARDANT HEALTH, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

45-4139254
(I.R.S. Employer
Identification No.)

505 Penobscot Dr.
Redwood City, California, 94063
Registrant's telephone number, including area code: (855) 698-8887

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.00001 par value per share	GH	The Nasdaq Global Select Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 29, 2021, the registrant had 101,656,348 shares of common stock, \$0.00001 par value per share, outstanding.

GUARDANT HEALTH, INC.
FORM 10-Q

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the section titled “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” contains forward-looking statements regarding future events and our future results that are based on our current expectations, estimates, forecasts and projections as well as the current beliefs and assumptions of our management, including about our business, our financial condition, our results of operations, our cash flows, and the industry and environment in which we operate. Statements that include words such as “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “would,” “could,” “should,” “intend” and “expect,” variations of these words, and similar expressions, are intended to identify forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Part I, Item 1A, “*Risk Factors*” and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2020, in Part II, Item 1A, “*Risk Factors*” and elsewhere in this Quarterly Report on Form 10-Q, and in other reports we file with the U.S. Securities and Exchange Commission, or the SEC. While forward-looking statements are based on the reasonable expectations of our management at the time that they are made, you should not rely on them. We undertake no obligation to revise or update publicly any forward-looking statements for any reason, whether as a result of new information, future events or otherwise, except as may be required by law.

Each of the terms the “Company,” “we,” “our,” “us” and similar terms used herein refer collectively to Guardant Health, Inc., a Delaware corporation, and its consolidated subsidiaries, unless otherwise stated.

PART I—FINANCIAL INFORMATION
Item 1. Unaudited Condensed Consolidated Financial Statements

Guardant Health, Inc.
Condensed Consolidated Balance Sheets (unaudited)
(in thousands, except share and per share data)

	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 832,370	\$ 832,977
Short-term marketable securities	653,601	961,903
Accounts receivable, net	60,744	53,299
Inventory	24,739	22,716
Prepaid expenses and other current assets, net	21,958	17,466
Total current assets	1,593,412	1,888,361
Long-term marketable securities	250,226	246,597
Property and equipment, net	106,156	62,782
Right-of-use assets	196,436	37,343
Intangible assets, net	14,698	16,155
Goodwill	3,290	3,290
Other assets, net	61,316	17,253
Total Assets ⁽¹⁾	<u>\$ 2,225,534</u>	<u>\$ 2,271,781</u>
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,674	\$ 7,340
Accrued compensation	38,838	28,280
Accrued expenses	40,475	22,639
Deferred revenue	7,317	8,550
Total current liabilities	102,304	66,809
Convertible senior notes, net	1,134,180	806,292
Long-term operating lease liabilities	216,806	41,565
Other long-term liabilities	3,424	1,520
Total Liabilities ⁽¹⁾	1,456,714	916,186
Redeemable noncontrolling interest	59,400	57,100
Stockholders' equity:		
Common stock, par value of \$0.00001 per share; 350,000,000 shares authorized as of September 30, 2021, and December 31, 2020; 101,623,257 and 100,213,985 shares issued and outstanding as of September 30, 2021, and December 31, 2020, respectively	1	1
Additional paid-in capital	1,626,926	1,902,389
Accumulated other comprehensive income	(593)	2,697
Accumulated deficit	(916,914)	(606,592)
Total Stockholders' Equity	709,420	1,298,495
Total Liabilities, Redeemable Noncontrolling Interest and Stockholders' Equity	<u>\$ 2,225,534</u>	<u>\$ 2,271,781</u>

(1) As of September 30, 2021, and December 31, 2020, this balance includes \$24.8 million and \$35.0 million of assets, respectively, that can be used only to settle obligations of the consolidated variable interest entity ("VIE") and VIE's subsidiaries, and \$3.8 million and \$4.9 million, respectively, of liabilities of the consolidated VIE and VIE's subsidiaries, for which their creditors do not have recourse to the general credit of the Company. See Note 3, *Investment in Joint Venture*.

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

Guardant Health, Inc.
Condensed Consolidated Statements of Operations (unaudited)
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenue:				
Precision oncology testing	\$ 79,272	\$ 60,384	\$ 215,605	\$ 171,621
Development services and other	15,507	14,185	49,940	36,793
Total revenue	94,779	74,569	265,545	208,414
Costs and operating expenses:				
Cost of precision oncology testing	29,665	16,699	78,142	52,699
Cost of development services and other	1,151	4,488	11,348	11,429
Research and development expense	70,968	36,245	190,200	109,580
Sales and marketing expense	50,228	25,095	132,282	75,225
General and administrative expense	50,055	66,294	166,366	123,265
Total costs and operating expenses	202,067	148,821	578,338	372,198
Loss from operations	(107,288)	(74,252)	(312,793)	(163,784)
Interest income	689	2,313	3,277	8,271
Interest expense	(644)	(8)	(1,934)	(30)
Other income (expense), net	(187)	345	(720)	2,421
Loss before provision for income taxes	(107,430)	(71,602)	(312,170)	(153,122)
Provision for income taxes	96	68	289	116
Net loss	(107,526)	(71,670)	(312,459)	(153,238)
Adjustment of redeemable noncontrolling interest	—	(6,000)	(2,300)	(6,800)
Net loss attributable to Guardant Health, Inc. common stockholders	\$ (107,526)	\$ (77,670)	\$ (314,759)	\$ (160,038)
Net loss per share attributable to Guardant Health, Inc. common stockholders, basic and diluted	\$ (1.06)	\$ (0.78)	\$ (3.11)	\$ (1.66)
Weighted-average shares used in computing net loss per share attributable to Guardant Health, Inc. common stockholders, basic and diluted	101,420	99,554	101,184	96,659

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

Guardant Health, Inc.
Condensed Consolidated Statements of Comprehensive Loss (unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	\$ (107,526)	\$ (71,670)	\$ (312,459)	\$ (153,238)
Other comprehensive income (loss), net of tax impact:				
Unrealized gain (loss) on available-for-sale securities	(513)	(1,721)	(2,097)	2,512
Foreign currency translation adjustments	(113)	191	(1,193)	239
Other comprehensive income (loss)	(626)	(1,530)	(3,290)	2,751
Comprehensive loss	<u>\$ (108,152)</u>	<u>\$ (73,200)</u>	<u>\$ (315,749)</u>	<u>\$ (150,487)</u>
Comprehensive income (loss) attributable to redeemable noncontrolling interest	—	(6,000)	(2,300)	(6,800)
Comprehensive loss attributable to Guardant Health, Inc.	<u>\$ (108,152)</u>	<u>\$ (79,200)</u>	<u>\$ (318,049)</u>	<u>\$ (157,287)</u>

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

Guardant Health, Inc.

Condensed Consolidated Statements of Redeemable Noncontrolling Interest and Stockholders' Equity (unaudited)
(in thousands, except share data)

	Three Months Ended September 30, 2021						
	Redeemable Noncontrolling Interest	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount				
Balance as of June 30, 2021	\$ 59,400	101,265,100	\$ 1	\$ 1,597,419	\$ 33	\$ (809,388)	\$ 788,065
Issuance of common stock upon exercise of stock options	—	257,535	—	1,677	—	—	1,677
Vesting of restricted stock units	—	100,622	—	—	—	—	—
Vesting of common stock exercised early	—	—	—	13	—	—	13
Taxes paid related to net share settlement of restricted stock units	—	—	—	(7,199)	—	—	(7,199)
Stock-based compensation	—	—	—	35,016	—	—	35,016
Other comprehensive loss, net of tax impact	—	—	—	—	(626)	—	(626)
Net loss	—	—	—	—	—	(107,526)	(107,526)
Balance as of September 30, 2021	\$ 59,400	101,623,257	\$ 1	\$ 1,626,926	\$ (593)	\$ (916,914)	\$ 709,420

	Three Months Ended September 30, 2020						
	Redeemable Noncontrolling Interest	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount				
Balance as of June 30, 2020	\$ 50,400	99,312,237	\$ 1	\$ 1,544,373	\$ 5,392	\$ (435,177)	\$ 1,114,589
Issuance of common stock upon exercise of stock options	—	533,962	—	3,851	—	—	3,851
Vesting of restricted stock units	—	50,989	—	—	—	—	—
Vesting of common stock exercised early	—	—	—	13	—	—	13
Taxes paid related to net share settlement of restricted stock units	—	—	—	(2,247)	—	—	(2,247)
Stock-based compensation	—	—	—	55,198	—	—	55,198
Adjustment of redeemable noncontrolling interest	6,000	—	—	—	—	(6,000)	(6,000)
Other comprehensive loss, net of tax impact	—	—	—	—	(1,530)	—	(1,530)
Net loss	—	—	—	—	—	(71,670)	(71,670)
Balance as of September 30, 2020	\$ 56,400	99,897,188	\$ 1	\$ 1,601,188	\$ 3,862	\$ (512,847)	\$ 1,092,204

Nine Months Ended September 30, 2021

	Redeemable Noncontrolling Interest	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount				
Balance as of December 31, 2020	\$ 57,100	100,213,985	\$ 1	\$ 1,902,389	\$ 2,697	\$ (606,592)	\$ 1,298,495
Cumulative effect adjustment for ASU 2020-06 adoption	—	—	—	(330,403)	—	4,437	(325,966)
Issuance of common stock upon exercise of stock options	—	629,246	—	7,065	—	—	7,065
Vesting of restricted stock units	—	719,128	—	—	—	—	—
Vesting of common stock exercised early	—	—	—	39	—	—	39
Common stock issued under employee stock purchase plan	—	60,898	—	5,401	—	—	5,401
Taxes paid related to net share settlement of restricted stock units	—	—	—	(82,157)	—	—	(82,157)
Stock-based compensation	—	—	—	124,592	—	—	124,592
Adjustment of redeemable noncontrolling interest	2,300	—	—	—	—	(2,300)	(2,300)
Other comprehensive loss, net of tax impact	—	—	—	—	(3,290)	—	(3,290)
Net loss	—	—	—	—	—	(312,459)	(312,459)
Balance as of September 30, 2021	<u>\$ 59,400</u>	<u>101,623,257</u>	<u>\$ 1</u>	<u>\$ 1,626,926</u>	<u>\$ (593)</u>	<u>\$ (916,914)</u>	<u>\$ 709,420</u>

Nine Months Ended September 30, 2020

	Redeemable Noncontrolling Interest	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
		Shares	Amount				
Balance as of December 31, 2019	\$ 49,600	94,261,414	\$ 1	\$ 1,150,090	\$ 1,111	\$ (352,809)	\$ 798,393
Issuance of common stock in public offering, net of offering costs of \$1,130	—	4,312,500	—	354,600	—	—	354,600
Issuance of common stock upon exercise of stock options	—	1,188,519	—	7,399	—	—	7,399
Vesting of restricted stock units	—	76,591	—	—	—	—	—
Vesting of common stock exercised early	—	—	—	39	—	—	39
Common stock issued under employee stock purchase plan	—	58,164	—	3,956	—	—	3,956
Taxes paid related to net share settlement of restricted stock units	—	—	—	(2,247)	—	—	(2,247)
Stock-based compensation	—	—	—	87,351	—	—	87,351
Adjustment of redeemable noncontrolling interest	6,800	—	—	—	—	(6,800)	(6,800)
Other comprehensive loss, net of tax impact	—	—	—	—	2,751	—	2,751
Net loss	—	—	—	—	—	(153,238)	(153,238)
Balance as of September 30, 2020	<u>\$ 56,400</u>	<u>99,897,188</u>	<u>\$ 1</u>	<u>\$ 1,601,188</u>	<u>\$ 3,862</u>	<u>\$ (512,847)</u>	<u>\$ 1,092,204</u>

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

Guardant Health, Inc.
Condensed Consolidated Statements of Cash Flows (unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2021	2020
OPERATING ACTIVITIES:		
Net loss	\$ (312,459)	\$ (153,238)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	16,181	11,462
Non-cash operating lease costs	17,782	3,349
Charge of in-process research and development costs with no alternative future use	—	8,500
Re-valuation of contingent consideration	1,845	(120)
Non-cash stock-based compensation	124,592	87,351
Amortization of debt issuance costs	1,922	—
Amortization of premium (discount) on marketable securities	9,546	1,636
Credit loss adjustment and others	8	8,056
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,445)	11,581
Inventory	(2,023)	(12,550)
Prepaid expenses and other current assets	(5,758)	491
Other assets	(3,226)	(7,571)
Accounts payable	6,939	846
Accrued compensation	10,558	5,480
Accrued expenses and other liabilities	10,484	(1,514)
Operating lease liabilities	258	(3,523)
Deferred revenue	(1,233)	(4,940)
Net cash used in operating activities	(132,029)	(44,704)
INVESTING ACTIVITIES:		
Purchases of marketable securities	(334,082)	(580,172)
Maturity of marketable securities	627,110	307,548
Purchase of non-marketable equity and other related investments	(39,076)	—
Purchases of property and equipment	(50,410)	(28,891)
Purchase of intangible assets and capitalized license obligations	—	(17,886)
Net cash provided by (used in) investing activities	203,542	(319,401)
FINANCING ACTIVITIES:		
Payments made on finance lease obligations	(129)	(125)
Proceeds from issuance of common stock upon exercise of stock options	7,065	7,399
Proceeds from issuances of common stock under employee stock purchase plan	5,401	3,956
Taxes paid related to net share settlement of restricted stock units	(82,157)	(2,247)
Proceeds from public offering, net of underwriting discounts and commissions	—	355,730
Payment of offering costs related to public offering	—	(1,130)
Payment of offering costs related to borrowings on convertible senior notes	(784)	—
Net cash (used in) provided by financing activities	(70,604)	363,583

	Nine Months Ended September 30,	
	2021	2020
Net effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(1,193)	239
Net increase in cash, cash equivalents and restricted cash	(284)	(283)
Cash and cash equivalents—Beginning of period	832,977	143,228
Cash, cash equivalents and restricted cash—End of period	\$ 832,693	\$ 142,945
Supplemental Disclosures of Cash Flow Information:		
Operating lease liabilities arising from obtaining right-of-use assets	\$ 171,068	\$ 10,463
Supplemental Disclosures of Noncash Investing and Financing Activities:		
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 9,589	\$ 4,301
Issuance costs related to purchase of non-marketable equity and other related investments included in accounts payable and accrued expenses	\$ 346	\$ —
Property and equipment acquired under finance leases	\$ 238	\$ 47
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 832,370	\$ 142,945
Restricted cash – included in other assets, net	323	—
Total cash, cash equivalents and restricted cash	\$ 832,693	\$ 142,945

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

Guardant Health, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Description of Business

Guardant Health, Inc. (the “Company”) is a leading precision oncology company focused on helping conquer cancer globally through use of its proprietary tests, vast data sets and advanced analytics. The key to conquering cancer is unprecedented access to its molecular information throughout all stages of the disease, which the Company enables by a liquid or tissue biopsy. The Guardant Health Oncology Platform is designed to leverage the Company’s capabilities in technology, clinical development, regulatory and reimbursement to drive commercial adoption, accelerate drug development, improve patient clinical outcomes and lower healthcare costs. In pursuit of its goal to manage cancer across all stages of the disease, the Company provides its Guardant360, Guardant360 LDT, Guardant360 CDx, and GuardantOMNI liquid biopsy-based tests for advanced stage cancer. In February 2021, the Company launched its Guardant Reveal liquid biopsy-based tests for residual and recurring cancer to first address the need in Stage II-III colorectal cancer. In June 2021, the Company launched Guardant360 TissueNext, the Company’s first tissue-based test which will be used to identify patients with advanced cancer who may benefit from biomarker-informed treatment, and Guardant360 Response which will be used to measure early indications to patients’ response to treatment up to eight weeks earlier than response evaluation criteria in solid tumors. The Company is also developing tests from its LUNAR program which aims to address the needs of early stage cancer patients with neoadjuvant and adjuvant treatment selection, cancer survivors with surveillance, and asymptomatic individuals eligible for cancer screening and individuals at a higher risk for developing cancer with early detection. Using data collected from the Company’s tests, the Company has also developed the GuardantINFORM platform to further accelerate precision oncology drug development by biopharmaceutical companies by offering them an in-silico research platform to further unlock insights into tumor evolution and treatment resistance across various biomarker-driven cancers.

The Company was incorporated in Delaware in December 2011 and is headquartered in Redwood City, California. In May 2018, the Company formed and capitalized Guardant Health AMEA, Inc. (the “Joint Venture”) in the United States with an affiliate of SoftBank Vision Fund (AIV M1) L.P. (“SoftBank”). Under the terms of the joint venture agreement, the Company holds a 50% ownership interest in the Joint Venture. As of September 30, 2021, the Joint Venture has subsidiaries in Singapore and Japan (see Note 3, *Investment in Joint Venture*) and the Company has a subsidiary in Switzerland, which was incorporated in 2019.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Company’s condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The accompanying condensed consolidated financial statements include the accounts of Guardant Health, Inc., its consolidated Joint Venture and majority owned subsidiary. Other stockholders’ interests in the Joint Venture are shown in the condensed consolidated financial statements as redeemable noncontrolling interest. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company believes that its existing cash and cash equivalents and marketable securities as of September 30, 2021, will be sufficient to allow the Company to fund its current operating plan through at least a period of one year after the date the accompanying condensed consolidated financial statements are issued. As the Company continues to incur losses, its transition to profitability is dependent upon a level of revenues adequate to support the Company’s cost structure. If the Company’s transition to profitability is not consistent with its current operating plan, the Company may have to seek additional capital.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the condensed consolidated financial statements, as well as the reported amounts of revenues and expenses during the periods presented. The Company bases its estimates on historical experience and other market-specific or other relevant assumptions that it believes to be reasonable under the circumstances. Estimates are used in several areas including, but not limited to, estimation of variable consideration, estimation of credit losses, standalone selling price allocation included in contracts with multiple performance obligations, goodwill and identifiable intangible assets, stock-based compensation, incremental borrowing rate for operating leases, contingencies, certain inputs into the provision for income taxes, including related reserves, valuation of non-

marketable securities, valuation of redeemable noncontrolling interest, among others. These estimates generally involve complex issues and require judgments, involve the analysis of historical results and prediction of future trends, can require extended periods of time to resolve and are subject to change from period to period. Actual results may differ materially from management's estimates.

The extent to which the coronavirus 2019, or COVID-19 pandemic, will ultimately impact the Company's business, results of operations, financial conditions, or cash flows continues to be highly uncertain. The severity of the impact on the Company's business for the remainder of calendar year 2021 and beyond will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic, and the impact of any variants of the virus, the extent and severity of the impact on the Company's customers and suppliers, the continued disruption to demand for the Company's products and services, and the impact of the global business and economic environment on liquidity and the availability of capital, all of which are uncertain and cannot be predicted.

Unaudited Interim Condensed Financial Statements

The accompanying condensed consolidated balance sheet as of September 30, 2021, the condensed consolidated statements of operations for the three and nine months ended September 30, 2021, and 2020, the condensed consolidated statements of comprehensive loss for the three and nine months ended September 30, 2021, and 2020, the condensed consolidated statements of redeemable noncontrolling interest and stockholders' equity for the three and nine months ended September 30, 2021, and 2020, and cash flows for the nine months ended September 30, 2021, and 2020, and the related interim condensed consolidated disclosures are unaudited. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information and in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities Act of 1933, as amended (the "Securities Act"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring accruals that the Company believes are necessary to fairly state the financial position and the results of the Company's operations and cash flows for interim periods in accordance with GAAP. Interim-period results are not necessarily indicative of results of operations or cash flows for a full year or any subsequent interim period.

The accompanying condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Foreign Currency

The functional currency of the subsidiaries of the consolidated Joint Venture is the local currency. The assets and liabilities of the subsidiaries are translated into U.S. dollars at exchange rates in effect at each balance sheet date, with the resulting translation adjustments recorded to a separate component of accumulated other comprehensive loss within stockholders' equity. Income and expense accounts are translated at average exchange rates during the period. Foreign currency transaction gains and losses resulting from transactions denominated in a currency other than the functional currency are recognized in the condensed consolidated statements of operations. For the three and nine months ended September 30, 2021, and 2020, foreign currency transaction gains and losses were immaterial.

Restricted Cash

Restricted cash consists of payroll withholding related to the Company's enrollment in certain voluntary disability insurance plan. Restricted cash balance as of September 30, 2021, was \$0.3 million, which was included in other assets in the accompanying consolidated balance sheets. The Company did not have any restricted cash as of December 31, 2020.

Non-Marketable Securities

The Company acquires certain equity investments in private companies to promote business and strategic objectives. The Company's investments in non-marketable equity securities do not give the Company the ability to control or exercise significant influence over the investee. The Company's non-marketable equity and other related investments totaled \$39.4 million as of September 30, 2021, and are included in other assets, net on the accompanying condensed consolidated balance sheets. The Company did not have such non-marketable equity and other related investments as of December 31, 2020. Non-marketable securities are subject to periodic impairment reviews and adjustments for observable price changes from orderly transactions. The Company's evaluation of impairment of such non-marketable securities is based on adverse changes in market conditions and the regulatory or economic environment, qualitative and quantitative analysis of the operating performance of the investee; changes in operating structure or

management of the investee; additional funding requirements; and the investee's ability to remain in business. Pursuant to one of the investments in non-marketable securities purchased by the Company, and subject to the Company purchasing additional non-marketable securities from the same investee, the Company acquired rights to purchase the investee at a pre-determined price subject to additional adjustments based on the performance of the investee, on or before December 31, 2022. As of September 30, 2021, no impairment or adjustments to carrying value of non-marketable securities have been recorded. The Company's assessment of these factors in determining whether an impairment exists could change in the future due to new developments or changes in applied assumptions.

Concentration of Risk

The Company is subject to credit risk from its portfolio of cash equivalents held at one commercial bank and investments in marketable securities. The Company limits its exposure to credit losses by investing in money market funds through a U.S. bank with high credit ratings. The Company's cash may consist of deposits held with banks that may at times exceed federally insured limits, however, its exposure to credit risk in the event of default by the financial institution is limited to the extent of amounts recorded on the condensed consolidated balance sheets. The Company performs evaluations of the relative credit standing of these financial institutions to limit the amount of credit exposure.

The Company also invests in investment-grade debt instruments and has policy limits for the amount it can invest in any one type of security, except for securities issued or guaranteed by the U.S. government. The goals of the Company's investment policy, in order of priority, are as follows: safety and preservation of principal and diversification of risk; liquidity of investments sufficient to meet cash flow requirements; and a competitive after-tax rate of return. Under its investment policy, the Company limits amounts invested in such securities by credit rating, maturity, investment type and issuer, as a result, the Company is not exposed to any significant concentrations of credit risk from these financial instruments.

The Company is subject to credit risk from its accounts receivable. The majority of the Company's accounts receivable arises from the provision of precision oncology services and development services and other in the United States and are primarily with biopharmaceutical companies with high credit ratings. The Company has not experienced any material losses related to receivables from individual customers, or groups of customers. The Company does not require collateral. Accounts receivable are recorded at net amount.

A significant customer is a biopharmaceutical customer or a clinical testing payer that represents 10% or more of the Company's total revenue or accounts receivable balance. Revenue attributable to each significant customer, including its affiliated entities, as a percentage of the Company's total revenue, for the respective period, and accounts receivable balance attributable to each significant customers, including its affiliated entities, as a percentage of the Company's total accounts receivable balance, at the respective condensed consolidated balance sheet date, are as follows:

	Revenue				Accounts Receivable, Net	
	Three Months Ended September 30,		Nine Months Ended September 30,		September 30, 2021	December 31, 2020
	2021	2020	2021	2020		
	(unaudited)					
Customer A	*	*	*	11 %	*	11 %
Customer B	31 %	28 %	28 %	24 %	11 %	13 %
Customer C	*	*	*	*	*	12 %
Customer D	*	*	*	*	*	11 %

* less than 10%

The Company is also subject to credit risk from its other receivables and other assets. The Company's other receivables and other assets include payments due from a third-party in relation to the settlement of a patent dispute reached in August 2020 for \$8.0 million payable over a period of 6 years. In December 2020, the Company received the first installment payment of \$1.0 million. The Company has evaluated and recorded a credit loss for the remaining \$7.0 million considering the third-party's credit worthiness and lack of financial history. The following table presents the receivable and the related credit loss amounts:

	Gross Amount		Allowance for Credit Losses				Net Amount	
			Three and Nine Months Ended September 30, 2021					
	September 30, 2021	December 31, 2020	Beginning Balance	Charged to (Reversed from) Other Income (Expense), Net	Reclassi- fication	Ending Balance	September 30, 2021	December 31, 2020
	(unaudited)			(unaudited) (in thousand)			(unaudited)	
Prepaid expenses and other current assets	\$ 1,100	\$ —	\$ —	\$ —	\$ (1,100)	\$ (1,100)	\$ —	\$ —
Other assets	5,900	7,000	(7,000)	—	1,100	(5,900)	—	—

Accounts Receivable, Net

Accounts receivable represent valid claims against biopharmaceutical companies, research institutes and international distributors. The Company evaluates the collectability of its accounts receivable based on historical collection trends, the financial condition of payment partners, and external market factors and provides for an allowance for potential credit losses based on management's best estimate of the amount of probable credit losses. As of September 30, 2021, and December 31, 2020, the Company had immaterial allowance for credit losses related to its accounts receivable.

Contract assets are presented under accounts receivable, net and other assets, net on the Company's condensed consolidated balance sheets and include balances due from commercial and governmental payers, and biopharmaceutical customers. Contract assets consists primarily of: i) precision oncology testing revenues to clinical customers that are recognized upon delivery of the test results prior to cash collection; and ii) development services and other revenues to biopharmaceutical customers that are recognized upon the achievement of performance-based milestones but prior to the establishment of billing rights. Contract assets are relieved when the Company receives payments from clinical customers, or when it invoices the biopharmaceutical customers when milestones are achieved, thereby reclassifying the balances from contract assets to accounts receivable. As of September 30, 2021, the Company had contract assets of \$30.9 million which was recorded in accounts receivable, net. As of December 31, 2020, the Company had contract assets of \$15.6 million which was recorded in accounts receivable, net, which included \$8.4 million of unbilled receivable relating to Guardant360 CDx.

Asset Acquisition

If an acquisition of an asset or group of assets does not meet the definition of a business, the transaction is accounted for as an asset acquisition rather than a business combination. An asset acquisition does not result in the recognition of goodwill and transaction costs are capitalized as part of the cost of the asset or group of assets acquired. Transaction costs allocated to in-process research and development technology with no future alternate use is expensed as incurred. The total consideration is allocated to the various intangible assets acquired on a relative fair value basis. Cash paid in connection of purchase of in-process research and development technology in an asset acquisition is presented within the investing section of the condensed consolidated statement of cash flows.

Goodwill and Intangible Assets, net

Intangible assets related to in-process research and development costs ("IPR&D") acquired in a business combination are considered to be indefinite-lived until the completion or abandonment of the associated research and development efforts. If and when development is complete, 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. Prior to completion of the research and development efforts, the assets are considered indefinite-lived. During this period, the assets will not be amortized but will be tested for impairment on an annual basis and between annual tests if we

become aware of any events occurring or changes in circumstances that would indicate a reduction in the fair value of the IPR&D projects below their respective carrying amounts.

Goodwill represents the excess of the purchase price over the fair value of net identifiable assets and liabilities. Goodwill and IPR&D are not amortized but are tested for impairment at least annually during the fourth fiscal quarter, or if circumstances indicate their value may no longer be recoverable. The Company continues to operate in one segment, which is considered to be the sole reporting unit and, therefore, goodwill was tested for impairment at the enterprise level. As of September 30, 2021, there has been no impairment of goodwill or IPR&D.

Intangible assets are carried at cost, net of accumulated amortization. The Company does not have intangible assets with indefinite useful lives other than goodwill and the acquired IPR&D. Amortization is recorded on a straight-line basis over the intangible asset's useful life, which is approximately 6—12 years.

Leases

The Company determines if an arrangement contains a lease at inception. Operating lease right-of-use (“ROU”) assets and operating leases liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received or receivable. The Company uses its incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities, as the Company's leases generally do not provide an implicit rate. Lease terms may include options to extend or terminate when the Company is reasonably certain the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term. The Company also has lease arrangements with lease and non-lease components. The Company elected the practical expedient not to separate non-lease components from lease components for the Company's facility leases. The Company also elected to apply the short-term lease measurement and recognition exemption in which ROU assets and lease liabilities are not recognized for leases with terms of 12 months or less.

Convertible Senior Notes

In accounting for the issuance of the convertible senior notes, the Company separates the notes into liability and equity components. The carrying amount of the liability component is calculated by measuring the fair value of a similar liability that does not have an associated convertible feature, using a discounted cash flow model with a risk adjusted yield. The carrying amount of the equity component representing the conversion option is determined by deducting the fair value of the liability component from the par value of the notes as a whole. This difference represents a debt discount that is amortized to interest expense using the effective interest method over the term of the notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the transaction costs related to the issuance of the notes, the Company allocated the total amount incurred to the liability and equity components based on their relative fair values. Transaction costs attributable to the liability component are netted with the liability component and amortized to interest expense using the effective interest method over the term of the notes. Transaction costs attributable to the equity component are netted with the equity component of the notes in additional paid-in capital in the condensed consolidated balance sheets. Starting January 1, 2021, upon early adoption of ASU 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, the carrying amount of the equity component of the cash conversion feature including the allocated debt issuance costs were reclassified from additional paid-in capital to convertible senior notes, net.

Revenue Recognition

The Company derives revenue from the provision of precision oncology testing services provided to its ordering physicians and biopharmaceutical customers, as well as from biopharmaceutical research and development services provided to its biopharmaceutical customers. Precision oncology testing services include genomic profiling and the delivery of other genomic information derived from the Company's platform. Development services and other include companion diagnostic development, clinical trial setup, monitoring and maintenance, information solutions and laboratory services, and other miscellaneous revenue streams. The Company currently receives payments from third-party commercial and governmental payers, certain hospitals and oncology centers and individual patients, as well as biopharmaceutical companies, research institutes and international distributors.

Revenues are recognized when control of services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. ASC 606 provides for a five-step model that includes identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations, and recognizing revenue when, or as, an entity satisfies a performance obligation.

Precision oncology testing

The Company recognizes revenue from the sale of its precision oncology tests for clinical customers, including certain hospitals, cancer centers, other institutions and patients, at the time results of the test are reported to physicians. Most precision oncology tests requested by clinical customers are sold without a written agreement; however, the Company determines an implied contract exists with its clinical customers. The Company identifies each sale of its liquid biopsy test to clinical customer as a single performance obligation. With the exception of certain limited contracted arrangements with insurance carriers and other institutions where the transaction price is fixed, a stated contract price does not exist and the transaction price for each implied contract with clinical customers represents variable consideration. The Company estimates the variable consideration under the portfolio approach and considers the historical reimbursement data from third-party commercial and governmental payers and patients, as well as known or anticipated reimbursement trends not reflected in the historical data. The Company monitors the estimated amount to be collected in the portfolio at each reporting period based on actual cash collections in order to assess whether a revision to the estimate is required. Both the estimate and any subsequent revision contain uncertainty and require the use of significant judgment in the estimation of the variable consideration and application of the constraint for such variable consideration. The Company analyzes its actual cash collections over the expected reimbursement period and compares it with the estimated variable consideration for each portfolio and any difference is recognized as an adjustment to estimated revenue after the expected reimbursement period, subject to assessment of the risk of future revenue reversal. For the three months ended September 30, 2021, and 2020, the Company recorded \$3.2 million and \$11.4 million as revenue, respectively, resulting from cash collections exceeding the estimated variable consideration related to samples processed in previous periods, including revenue received from successful appeals of reimbursement denials, net of recoupments. For the nine months ended September 30, 2021, and 2020, the Company recorded \$17.8 million and \$21.9 million as revenue, respectively, resulting from cash collections exceeding the estimated variable consideration related to samples processed in previous periods, including revenue received from successful appeals of reimbursement denials, net of recoupments.

Revenue from sales of precision oncology tests to biopharmaceutical customers are based on a negotiated price per test or on the basis of an agreement to provide certain testing volume over a defined period. The Company identifies its promise to transfer a series of distinct liquid biopsy tests to biopharmaceutical customers as a single performance obligation. Precision oncology tests to biopharmaceutical customers are generally billed at a fixed price for each test performed. For agreements involving testing volume to be satisfied over a defined period, revenue is recognized over time based on the number of tests performed as the performance obligation is satisfied over time. Results of the Company's precision oncology services are delivered electronically, and as such there are no shipping or handling fees incurred by the Company or billed to customers.

Development services and other

The Company performs development services for its biopharmaceutical customers utilizing its precision oncology information platform. Development services typically represent a single performance obligation as the Company performs a significant integration service, such as analytical validation and regulatory submissions. The individual promises are not separately identifiable from other promises in the contracts and, therefore, are not distinct. However, under certain contracts, a biopharmaceutical customer may engage the Company for multiple distinct development services which are both capable of being distinct and separately identifiable from other promises in the contracts and, therefore, distinct performance obligations.

The Company collaborates with pharmaceutical companies in the development of new drugs. As part of these collaborations, the Company provides services related to regulatory filings to support companion diagnostic device submissions for the Company's liquid biopsy panels. Under these collaborations, the Company generates revenue from achievement of milestones, as well as provision of on-going support. For development services performed, the Company is compensated through a combination of an upfront fee and performance-based, non-refundable regulatory and other developmental milestone payments. The transaction price of the Company's development services contracts typically represents variable consideration. Application of the constraint for variable consideration to milestone payments is an area that requires significant judgment. The Company evaluates factors such as the scientific, clinical, regulatory, commercial, and other risks that must be managed to achieve the respective milestone and the level of effort and investment required to achieve the respective milestone. In making this assessment, the Company considers its historical experience with similar milestones, the degree of complexity and uncertainty associated with each milestone, and whether achievement of the milestone is dependent on parties other than the Company. The constraint for variable consideration is applied such that it is probable a significant reversal of revenue will not occur when the uncertainty associated with the contingency is resolved. Application of the

constraint for variable consideration is assessed and updated at each reporting period as a revision to the estimated transaction price.

The Company recognizes development services revenue over the period in which biopharmaceutical research and development services are provided. Specifically, the Company recognizes revenue using an input method to measure progress, utilizing costs incurred to-date relative to total expected costs as its measure of progress. The Company assesses the changes to the total expected cost estimates as well as any incremental fees negotiated resulting from changes to the scope of the original contract in determining the revenue recognition at each reporting period. For development of new products or services under these arrangements, costs incurred before technological feasibility is reached are included as research and development expenses in the Company's condensed consolidated statements of operations, while costs incurred thereafter are recorded as cost of development services and other.

The Company also has other miscellaneous revenue streams that are recognized in addition to development services noted above such as clinical trial setup, monitoring and maintenance, liquid biopsy testing development and support, GuardantConnect, GuardantINFORM, and kits fulfillment related revenues. Revenues related to clinical trial setup, monitoring and maintenance, referral fees, liquid biopsy testing development and support, GuardantConnect, GuardantINFORM are generally recognized over time based on an input method to measure progress in the period when the associated services have been performed. Kits fulfillment related revenues are recognized when such products are delivered.

Contracts with multiple performance obligations

Contracts with biopharmaceutical customers may include multiple distinct performance obligations, such as provision of precision oncology testing, biopharmaceutical research and development services, and clinical trial enrollment assistance, among others. The Company evaluates the terms and conditions included within its contracts with biopharmaceutical customers to ensure appropriate revenue recognition, including whether services are considered distinct performance obligations that should be accounted for separately versus together. The Company first identifies material promises, in contrast to immaterial promises or administrative tasks, under the contract, and then evaluates whether these promises are both capable of being distinct and distinct within the context of the contract. In assessing whether a promised service is capable of being distinct, the Company considers whether the customer could benefit from the service either on its own or together with other resources that are readily available to the customer, including factors such as the research, development, and commercialization capabilities of a third party as well as the availability of the associated expertise in the general marketplace. In assessing whether a promised service is distinct within the context of the contract, the Company considers whether it provides a significant integration of the services, whether the services significantly modify or customize one another, or whether the services are highly interdependent or interrelated.

For contracts with multiple performance obligations, the transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines standalone selling price by considering the historical selling price of these performance obligations in similar transactions as well as other factors, including, but not limited to, the price that customers in the market would be willing to pay, competitive pricing of other vendors, industry publications and current pricing practices, and expected costs of satisfying each performance obligation plus appropriate margin.

Deferred revenue

Deferred revenue, which is a contract liability, consists primarily of payments received in advance of revenue recognition from contracts with customers. For example, development services and other contracts with biopharmaceutical customers often contain upfront payments which results in the recording of deferred revenue to the extent cash is received prior to the Company's performance of the related services. Contract liabilities are relieved as the Company performs its obligations under the contract and revenue is consequently recognized. As of September 30, 2021, and December 31, 2020, the deferred revenue balance was \$7.3 million and \$8.6 million, respectively, which included \$0.6 million and \$3.0 million, respectively, related to collaboration development efforts with pharmaceutical companies to be recognized as the Company performs research and development services in the future periods. Revenue recognized in the nine months ended September 30, 2021, that was included in the deferred revenue balance as of December 31, 2020, was \$8.0 million, of which \$3.0 million represented revenue from provision of development services under the collaboration agreements with biopharmaceutical customers. Revenue recognized in the nine months ended September 30, 2020, that was included in the deferred revenue balance as of December 31, 2019, was \$8.8 million, which primarily represented revenue from provision of development services under the collaboration agreements with biopharmaceutical customers.

Transaction price allocated to the remaining performance obligations

Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized, which includes deferred revenue and non-cancelable amounts that will be invoiced and recognized as revenues in future periods. The Company expects to recognize substantially all of the remaining transaction price in the next 12 months.

Costs of Precision Oncology Testing

Cost of precision oncology testing generally consists of cost of materials, direct labor including bonus, benefit and stock-based compensation, equipment and infrastructure expenses associated with processing liquid biopsy test samples (including sample accessioning, library preparation, sequencing, quality control analyses and shipping charges to transport blood samples), freight, curation of test results for physicians and license fees due to third parties. Infrastructure expenses include depreciation of laboratory equipment, rent costs, amortization of leasehold improvements and information technology costs. Costs associated with performing the Company's tests are recorded as the tests are performed regardless of whether revenue was recognized with respect to that test. Royalties for licensed technology calculated as a percentage of revenues generated using the associated technology are recorded as expense at the time the related revenues are recognized. One-time royalty payments related to signing of license agreements or other milestones, such as issuance of new patents, are amortized to expense over the expected useful life of the applicable patent rights.

Cost of Development Services and Other

Cost of development service and other primarily includes costs incurred for the performance of development services requested by the Company's biopharmaceutical customers and other revenues included as noted above. For development of new products, costs incurred before technological feasibility has been achieved are reported as research and development expenses, while costs incurred thereafter are reported as cost of development services and other.

Research and Development Expenses

Research and development expenses are comprised of costs incurred to develop technology and include compensation and benefits, reagents and supplies used in research and development laboratory work, infrastructure expenses, including allocated facility occupancy and information technology costs, contract services and other outside costs. Research and development costs are expensed as incurred. Payments made prior to the receipt of goods or services to be used in research and development are deferred and recognized as expense in the period in which the related goods are received or services are rendered. Costs to develop the Company's technology capabilities are recorded as research and development unless they meet the criteria to be capitalized as internal-use software costs.

Stock-Based Compensation

Stock-based compensation related to stock options granted to the Company's and the Joint Venture's employees, directors and nonemployees is measured at the grant date based on the fair value of the award. The fair value is recognized as expense over the requisite service period, which is generally the vesting period of the respective awards. Compensation expense for stock options with performance metrics is calculated based upon expected achievement of the metrics specified in the grant.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options granted under the 2012 Stock Plan, the 2018 Incentive Award Plan, and the Joint Venture's 2020 Equity Incentive Plan, and stock purchase rights granted under the 2018 Employee Stock Purchase Plan. The Black-Scholes option-pricing model requires assumptions to be made related to the expected term of an award, expected volatility, risk-free rate and expected dividend yield. The board of directors of the Joint Venture has determined the fair value of common stock of the Joint Venture. Forfeitures are accounted for as they occur.

For market-based restricted stock units, the Company derives the requisite service period using the Monte Carlo simulation model and the related compensation expense is recognized over the derived service period using an accelerated attribution model commencing on the grant date. Stock-based compensation expense will be recorded regardless of whether the market conditions are achieved or not. If the related market condition is achieved earlier than its estimated derived service period, the stock-based compensation expense will be accelerated, and a cumulative catch-up expense will be recorded during the period in which the market condition is met.

The Company measures the grant date fair value of its service-based and performance-based restricted stock units issued to employees based on the closing market price of the common stock on the date of grant. For restricted stock units with only service-based vesting conditions, compensation expense is recognized in the Company's condensed consolidated statement of operations on a straight-line basis over the requisite service period. Compensation expense for restricted stock units with performance metrics is calculated based upon expected achievement of the metrics specified in the grant, and is recognized in the Company's condensed consolidated statement of operations using an accelerated attribution model over the requisite service period for each separately vesting portion of the award.

Net Loss Per Share Attributable to Common Stockholders

The Company calculates basic net loss per share attributable to common stockholders by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The diluted net loss per share attributable to common stockholders is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period determined using the treasury stock method or the as-if converted method, as appropriate. For purposes of this calculation, stock options, restricted stock units, shares issuable pursuant to the employee stock purchase plan, shares subject to repurchase from early exercised options and contingently issuable shares under the convertible senior notes are considered common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive.

Accounting Pronouncements Adopted

Convertible Instruments and Contracts in an Entity's Own Equity

In August 2020, the FASB issued ASU No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity (ASU 2020-06)*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts in an entity's own equity. Among other changes, ASU 2020-06 removes the liability and equity separation model for convertible instruments with a cash conversion feature, and as a result, after adoption, entities will no longer separately present in equity an embedded conversion feature for such debt. Similarly, the embedded conversion feature will no longer be amortized as interest expense over the life of the instrument. Instead, entities will account for a convertible debt instrument wholly as debt unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC Topic 815, *Derivatives and Hedging*, or (2) a convertible debt instrument was issued at a substantial premium. Among other potential impacts, this change is expected to reduce reported interest expense, increase reported net income, and result in a reclassification of certain conversion feature balance sheet amounts from stockholders' equity to liabilities as it relates to the Company's convertible senior notes. Additionally, ASU 2020-06 requires the application of the if-converted method to calculate the impact of convertible instruments on diluted earnings per share. The Company early adopted ASU 2020-06 in the first quarter of fiscal 2021 using the modified retrospective approach which resulted in the re-classification of the carrying amount of the equity component of the cash conversion feature including the allocated debt issuance costs as of December 31, 2020, from additional paid-in capital to convertible senior notes, net.

3. Investment in Joint Venture

Variable Interest Entity ("VIE")

In May 2018, the Company and an affiliate of SoftBank formed and capitalized the Joint Venture for the sale, marketing and distribution of the Company's tests in all areas worldwide, outside of North America, Central America, South America, the United Kingdom, all other member states of the European Union as of May 9, 2017, Iceland, Norway, Switzerland and Turkey. The Company expects to rely on the Joint Venture to accelerate commercialization of its products in Asia, the Middle East and Africa.

Under the terms of the joint venture agreement, the Company paid \$9.0 million for 40,000 shares of common stock, or 50% ownership interest, of the Joint Venture, and the affiliate of SoftBank contributed \$41.0 million for 40,000 shares of common stock, or the other 50% ownership interest, of the Joint Venture. In June 2020, an amended and restated certificate of incorporation of the Joint Venture, as approved by the board of directors of the Joint Venture, was filed with the Secretary of State of the State of Delaware. The amended and restated certificate of incorporation, among other things, increased the number of authorized shares of common stock to 89,000,000 shares consisting of 80,000,000 shares of Class A common stock and 9,000,000 shares of Class B (non-voting) common stock; and authorized 80,000,000 shares of Series A preferred stock. Pursuant to the amended and restated certificate of incorporation, each share of common stock held by the Company and the affiliate of SoftBank was reclassified and exchanged for 1,000 shares of Series A preferred stock. As a result, each of the Company and the affiliate of

SoftBank held 40,000,000 shares of Series A preferred stock. The holders of Series A preferred stock are entitled to receive dividends at the rate of \$0.05 per share if and when declared by the board of directors of the Joint Venture. In June 2020, the board of directors of the Joint Venture authorized the adoption of the Joint Venture's 2020 Equity Incentive Plan pursuant to which 4,595,555 shares of Class B common stock have been reserved for issuance. As of September 30, 2021, and December 31, 2020, 313,331 and no shares of Class B common stock have been issued and outstanding, respectively, and no shares of Class A common stock have been issued and outstanding. As of September 30, 2021, and December 31, 2020, 80,000,000 shares of Series A preferred stock have been issued and outstanding.

Under the terms of the joint venture agreement, neither party is obligated to make any further capital contribution, in cash or otherwise, to the Joint Venture. The Joint Venture is deemed to be a variable interest entity ("VIE") and the Company has been identified as the VIE's primary beneficiary. As the primary beneficiary, the Company has consolidated the financial position, results of operations and cash flows of the Joint Venture in its financial statements and all intercompany balances have been eliminated in consolidation.

As of September 30, 2021, and December 31, 2020, the Joint Venture had total assets of approximately \$24.8 million and \$35.0 million, respectively, which were primarily comprised of cash, property and equipment, right-of-use assets and security deposits. Although the Company consolidates the Joint Venture, the legal structure of the Joint Venture limits the recourse that its creditors will have over the Company's general credit or assets. Similarly, the assets held in the Joint Venture can be used only to settle obligations of the Joint Venture. As of September 30, 2021, the Company has not provided financial or other support to the Joint Venture that was not previously contracted or required.

Put-call arrangements

The joint venture agreement includes a put-call arrangement with respect to the shares of the Joint Venture held by SoftBank and its affiliates. Under certain specified circumstances and on terms specified in the joint venture agreement, including timely written notice, SoftBank has the right to cause the Company to purchase all shares of the Joint Venture held by SoftBank and its affiliates (the "put right"), and the Company has a right to purchase all such shares (the "call right").

Each of the Company and SoftBank may exercise its respective put-call rights for the Company to purchase all shares of the Joint Venture held by SoftBank in the event of (i) certain material disagreements relating to the Joint Venture or its business that may seriously affect the ability of the Joint Venture to perform its obligations under the joint venture agreement or may otherwise seriously impair the ability of the Joint Venture to conduct its business in an effective matter, other than one relating to the Joint Venture's business plan or to factual matters that may be capable of expert determination; (ii) the effectiveness of the Company's initial public offering, a change in control of the Company, the seventh anniversary of the formation of the Joint Venture, or each subsequent anniversary of each of the foregoing events; or (iii) a material breach of the joint venture agreement by the other party that goes unremedied within 20 business days. Unless the shares of the Joint Venture are publicly traded and listed on a nationally recognized stock exchange, the purchase price per share of the Joint Venture in these situations will be determined by a third-party valuation firm on the assumption that the sale is on an arm's-length basis on the date of the put or call notice. The third-party valuation firm may evaluate a range of factors and employ assumptions that are subjective in nature, which could result in the fair value of SoftBank's interests in the Joint Venture being determined to be materially different from what has been recorded in the Company's condensed consolidated financial statements.

In the event the Company exercises its call right, the fair value of the Joint Venture will be deemed to be no less than an amount that yields a 20% internal rate of return on each tranche of capital invested by SoftBank and its affiliates in the Joint Venture, taking into account all proceeds received by SoftBank and its affiliates arising from their shares through such date.

In the event SoftBank exercises its put right and the fair value of the Joint Venture is determined to be greater than 40% of the fair value of the Company, the Company will only be required to purchase the number of shares of the Joint Venture held by SoftBank and its affiliates having an aggregate value equal to the product of 40% of the Company's fair value and the pro rata portion of the outstanding shares of the Joint Venture held by SoftBank and its affiliates.

The Company may pay the purchase price for the shares of the Joint Venture in cash, in shares of its capital stock (which may be a non-voting security with senior preferences to all other classes of its equity or, if its common stock is publicly traded on a national exchange, its common stock), or in a combination thereof. In the event the Company exercises the call right, SoftBank will choose the form of consideration. In the event SoftBank exercises the put

right, the Company will choose the form of consideration. On November 1, 2021, the Company elected to exercise the call right and provided its intent to purchase all shares held by SoftBank pursuant to a time-based trigger, see Note 17.

The noncontrolling interest held by SoftBank contains embedded put-call redemption features that are not solely within the Company's control and has been classified outside of permanent equity in the consolidated balance sheets. The put-call feature embedded in the redeemable noncontrolling interest do not currently require bifurcation as it does not meet the definition of a derivative and is considered to be clearly and closely related to the redeemable noncontrolling interest. The noncontrolling interest is considered probable of becoming redeemable as SoftBank has the option to exercise its put right to sell its equity ownership in the Joint Venture to the Company on or after the seventh anniversary of the formation of the Joint Venture, on each subsequent anniversary of the Company's initial public offering (the "IPO") and under certain other circumstances. The Company elected to recognize the change in redemption value immediately as they occur as if the put-call redemption feature were exercisable at the end of the reporting period. The carrying value of the redeemable noncontrolling interest is first adjusted for the earnings or losses attributable to the redeemable noncontrolling interest based on the percentage of the economic or ownership interest retained in the consolidated VIE by the noncontrolling parties, and then adjusted to equal to its redemption amount, or the fair value of the noncontrolling interest held by SoftBank, as if the redemption were to occur at the end of the reporting date.

4. Condensed Consolidated Balance Sheet Components

Property and Equipment, Net

Property and equipment, net consist of the following:

	September 30, 2021	December 31, 2020
	(unaudited)	
	(in thousands)	
Machinery and equipment	\$ 56,553	\$ 40,216
Leasehold improvements	35,681	34,037
Computer hardware	16,067	10,862
Construction in progress	42,295	7,833
Furniture and fixtures	3,598	3,043
Computer software	1,246	1,136
Property and equipment, gross	\$ 155,440	\$ 97,127
Less: accumulated depreciation	(49,284)	(34,345)
Property and equipment, net	\$ 106,156	\$ 62,782

Depreciation expense related to property and equipment was \$5.0 million and \$3.8 million for the three months ended September 30, 2021, and 2020, respectively, and \$14.6 million and \$10.0 million for the nine months ended September 30, 2021, and 2020, respectively.

Accrued Expenses

Accrued expenses consist of the following:

	September 30, 2021 (unaudited)	December 31, 2020
	(in thousands)	
Operating lease liabilities	\$ 8,253	\$ 6,632
Accrued tax liabilities	4,077	4,634
Accrued professional services	6,815	3,397
Accrued clinical trials and studies	3,351	1,264
Accrued legal expenses	5,878	2,875
Purchases of property and equipment included in accrued expenses	7,144	1,156
Accrued royalty obligations	195	146
Others	4,762	2,535
Total accrued expenses	<u>\$ 40,475</u>	<u>\$ 22,639</u>

5. Fair Value Measurements, Cash Equivalents and Marketable Securities

Financial instruments consist of cash equivalents, marketable securities, accounts receivable, net, prepaid expenses and other current assets, net, accounts payable and accrued expenses. Cash equivalents and marketable securities are stated at fair value. Prepaid expenses and other current assets, net, accounts payable and accrued expenses are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date.

Fair value is defined as the exchange price that would be received from sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The identification of market participant assumptions provides a basis for determining what inputs are to be used for pricing each asset or liability. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

A fair value hierarchy has been established which gives precedence to fair value measurements calculated using observable inputs over those using unobservable inputs. This hierarchy prioritized the inputs into three broad levels as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's financial assets and liabilities subject to fair value measurements on a recurring basis and the level of inputs used in such measurements were as follows:

September 30, 2021				
	Fair Value	Level 1	Level 2	Level 3
	(unaudited) (in thousands)			
Financial Assets:				
Money market funds	\$ 735,719	\$ 735,719	\$ —	\$ —
Total cash equivalents	\$ 735,719	\$ 735,719	\$ —	\$ —
U.S. government debt securities	\$ 653,601	\$ —	\$ 653,601	\$ —
Total short-term marketable securities	\$ 653,601	\$ —	\$ 653,601	\$ —
U.S. government debt securities	\$ 250,227	\$ —	\$ 250,227	\$ —
Total long-term marketable securities	\$ 250,227	\$ —	\$ 250,227	\$ —
Total	\$ 1,639,547	\$ 735,719	\$ 903,828	\$ —
Financial Liabilities:				
Contingent consideration	\$ 3,090	\$ —	\$ —	\$ 3,090
Total	\$ 3,090	\$ —	\$ —	\$ 3,090
	December 31, 2020			
	Fair Value	Level 1	Level 2	Level 3
	(in thousands)			
Financial Assets:				
Money market funds	\$ 620,630	\$ 620,630	\$ —	\$ —
Total cash equivalents	\$ 620,630	\$ 620,630	\$ —	\$ —
U.S. government debt securities	\$ 961,902	\$ —	\$ 961,902	\$ —
Total short-term marketable securities	\$ 961,902	\$ —	\$ 961,902	\$ —
U.S. government debt securities	\$ 246,597	\$ —	\$ 246,597	\$ —
Total long-term marketable securities	\$ 246,597	\$ —	\$ 246,597	\$ —
Total	\$ 1,829,129	\$ 620,630	\$ 1,208,499	\$ —
Financial Liabilities:				
Contingent consideration	\$ 1,245	\$ —	\$ —	\$ 1,245
Total	\$ 1,245	\$ —	\$ —	\$ 1,245

The Company measures the fair value of money market funds based on quoted prices in active markets for identical securities. U.S. government debt securities are valued taking into consideration valuations obtained from third-party pricing services. The pricing services utilize industry standard valuation models, including both income and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. These inputs include reported trades of and broker/dealer quotes on the same or similar securities, issuer credit spreads, benchmark securities, prepayment/default projections based on historical data and other observable inputs.

Acquisition-related contingent consideration is measured at fair value on a quarterly basis and change in estimated contingent consideration to be paid are included in operating expenses in the condensed consolidated statements of operations. As of September 30, 2021, and December 31, 2020, contingent consideration liability of \$3.1 million and

\$1.2 million, respectively, was recorded within other long-term liabilities on the condensed consolidated balance sheets.

The Company considers the fair value of the redeemable noncontrolling interest as of September 30, 2021, and December 31, 2020, to be a Level 3 measurement. The fair value of the redeemable noncontrolling interest was determined using a of the income approach and the market approach, and estimates and assumptions include future revenue growth rates, gross profit margins, EBITDA margins, future capital expenditures, weighted-average costs of capital and future market conditions, among others.

The following table summarizes the activities for the Level 3 financial instruments for the three and nine months ended September 30, 2021, and 2020:

	Redeemable Noncontrolling Interest				Contingent Consideration			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020	2021	2020	2021	2020
	(unaudited)							
	(in thousands)							
Fair value — beginning of period	\$ 59,400	\$ 50,400	\$ 57,100	\$ 49,600	\$ 2,120	\$ 1,175	\$ 1,245	\$ 1,365
Increase (decrease) in fair value	1,920	7,407	7,852	10,566	970	70	1,845	(120)
Net loss for the period	(1,920)	(1,407)	(5,552)	(3,766)	—	—	—	—
Fair value — end of period	<u>\$ 59,400</u>	<u>\$ 56,400</u>	<u>\$ 59,400</u>	<u>\$ 56,400</u>	<u>\$ 3,090</u>	<u>\$ 1,245</u>	<u>\$ 3,090</u>	<u>\$ 1,245</u>

The Company considers the fair value of the Convertible Notes as of September 30, 2021, and December 31, 2020, to be a Level 2 measurement. The fair value of the Convertible Notes is primarily affected by the trading price of the Company's common stock and market interest rates. As such, the carrying value of the Convertible Notes does not reflect the market rate. See Note 8, *Debt*, for additional information related to the fair value of the Convertible Notes.

Cash Equivalents and Marketable Securities

The following tables summarizes the Company's cash equivalents and marketable securities' amortized costs, gross unrealized gains, gross unrealized losses and estimated fair values by significant investment category:

	September 30, 2021			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(unaudited)			
	(in thousands)			
Money market fund	\$ 735,719	\$ —	\$ —	\$ 735,719
U.S. government debt securities	903,749	187	(108)	903,828
Total	<u>\$ 1,639,468</u>	<u>\$ 187</u>	<u>\$ (108)</u>	<u>\$ 1,639,547</u>

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
	(in thousands)			
Money market fund	\$ 620,630	\$ —	\$ —	\$ 620,630
U.S. government debt securities	1,206,195	2,339	(35)	1,208,499
Total	<u>\$ 1,826,825</u>	<u>\$ 2,339</u>	<u>\$ (35)</u>	<u>\$ 1,829,129</u>

There have been no material realized gains or losses on marketable securities for the periods presented. None of the Company's investments in marketable securities has been in an unrealized loss position for more than one year. The Company determined that it did have the ability and intent to hold all marketable securities that have been in a continuous loss position until maturity or recovery, thus there has been no recognition of credit losses in the three and nine months ended September 30, 2021, and 2020, respectively. The maturities of the Company's long-term marketable securities range from 1.3 to 2.0 years as of September 30, 2021.

6. Patent License Acquisition

In January 2017, the Company entered into a license agreement with a biotechnology company, KeyGene N.V. (“KeyGene”). An arbitration was initiated between the parties in 2018. In March 2020, the Company and KeyGene entered into a settlement and patent license agreement (the “SPLA”) to resolve the dispute and to acquire an extended worldwide non-exclusive license to certain patent rights with respect to KeyGene’s Next Generation Sequencing technologies along with certain covenant rights and research and development technology for a one-time payment of \$18.5 million, ending all future royalty obligations to KeyGene. This transaction was accounted for as an asset acquisition as the purchase did not meet the definition of a business. The total consideration, including \$0.6 million of certain capitalizable transaction costs, was allocated to various components of the SPLA.

The Company allocated \$9.4 million to the patent and covenant rights granted under the SPLA, which have useful lives in the range of 6-12 years. The Company allocated \$8.5 million to IPR&D technology, which have no alternative future use and was included in research and development expenses for the nine months ended September 30, 2020. The remaining \$1.2 million was allocated to the settlement of the prior dispute between the parties and was included in general and administrative expenses for the nine months ended September 30, 2020.

7. Intangible Assets, Net and Goodwill

The following table presents details of purchased intangible assets as of September 30, 2021, and December 31, 2020:

September 30, 2021				
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Weighted-Average Useful Life
	(unaudited)			
	(in thousands)			(in years)
Intangible assets subject to amortization:				
Acquired license	\$ 11,886	\$ (2,194)	\$ 9,692	9.0
Non-compete agreements and other covenant rights	5,100	(1,694)	3,406	4.2
Total intangible assets subject to amortization	16,986	(3,888)	13,098	
Intangible assets not subject to amortization:				
IPR&D	1,600	—	1,600	
Goodwill	3,290	—	3,290	
Total purchased intangible assets	\$ 21,876	\$ (3,888)	\$ 17,988	

December 31, 2020				
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Remaining Weighted-Average Useful Life
	(in thousands)			
	(in thousands)			(in years)
Intangible assets subject to amortization:				
Acquired license	\$ 11,886	\$ (1,367)	\$ 10,519	9.8
Non-compete agreements	5,100	(1,064)	4,036	4.9
Total intangible assets subject to amortization	16,986	(2,431)	14,555	
Intangible assets not subject to amortization:				
IPR&D	1,600	—	1,600	
Goodwill	3,290	—	3,290	
Total purchased intangible assets	\$ 21,876	\$ (2,431)	\$ 19,445	

Amortization of finite-lived intangible assets was \$0.5 million and \$0.5 million for the three months ended September 30, 2021, and 2020, respectively, and \$1.5 million and \$1.3 million for the nine months ended September 30, 2021, and 2020, respectively.

The following table summarizes estimated future amortization expense of finite-lived intangible assets—net:

Year Ending December 31,	(unaudited) (in thousands)
Remainder of 2021	\$ 491
2022	1,947
2023	1,947
2024	1,953
2025	1,705
2026 and thereafter	5,055
Total	<u>\$ 13,098</u>

8. Debt

Convertible Senior Notes

In November 2020, the Company issued \$1.15 billion principal amount of its 0% Convertible Senior Notes due 2027 (the “2027 Notes”). The 2027 Notes do not bear interest, and the principal amount of the Notes will not accrete. However, special interest and additional interest may accrue on the 2027 Notes at a rate per annum not exceeding 0.50% (subject to certain exceptions) upon the occurrence of certain events such as the failure to file certain reports to the Securities and Exchange Commission, or to remove certain restrictive legends from the Notes. The Notes will mature on November 15, 2027, unless repurchased, redeemed or converted earlier.

Before August 15, 2027, holders of the 2027 Notes will have the right to convert their 2027 Notes only under the following circumstances:

- during any calendar quarter (and only during such calendar quarter) commencing after the calendar quarter ending on March 31, 2021, if the last reported sale price of the Company's common stock exceeds 130% of the conversion price for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter (the “sale price condition”);
- during the five consecutive business days immediately after any ten consecutive trading day period (the “measurement period”) if the trading price per \$1,000 principal amount of the Notes for each trading day of the measurement period is less than 98% of the product of the last reported sale price of the Company's common stock on such trading day and the conversion rate on such trading day; or
- upon the occurrence of specified corporate events

From and after August 15, 2027, holders of the 2027 Notes may convert their 2027 Notes at any time at their election until the close of business on the second scheduled trading day immediately before the maturity date.

The Company will settle conversions by paying or delivering, as applicable, cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.

The initial conversion rate is 7.1523 shares of common stock per \$1,000 principal amount of 2027 Notes, which represents an initial conversion price of approximately \$139.82 per share of common stock. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a “Make-Whole Fundamental Change” occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Company may not redeem the 2027 Notes at its option at any time before November 20, 2024. The Notes will be redeemable, in whole or in part, at the Company's option at any time, and from time to time, on or after November 20, 2024 and on or before the 25th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid special interest and additional interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share

of the Company's common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (ii) the trading day immediately before the date the Company sends such notice. In addition, calling any Note for redemption will constitute a Make-Whole Fundamental Change with respect to that Note, in which case the conversion rate applicable to the conversion of that Note will be increased in certain circumstances if it is converted after it is called for redemption.

If certain corporate events that constitute a "Fundamental Change" occur, then, subject to a limited exception for certain cash mergers, holders of Notes may require the Company to repurchase their 2027 Notes at a cash repurchase price equal to the principal amount of the 2027 Notes to be repurchased, plus accrued and unpaid special interest and additional interest, if any, to, but excluding, the fundamental change repurchase date. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company's common stock.

In accounting for the 2027 Notes, the Company separated the 2027 Notes into liability and equity components. The carrying amount of the liability component was calculated using a Black-Scholes model by measuring the fair value of a similar instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the 2027 Notes as a whole. This difference represents a debt discount that is amortized as interest expense using an effective interest over the term of the 2027 Notes. Effective January 1, 2021, the Company early adopted ASU 2020-06 which resulted in the re-classification of the equity component representing the associated convertible feature and the related debt issuance costs into long-term liabilities with a corresponding impact to retained earnings.

Since the 2027 Notes were not convertible as of September 30, 2021, the net carrying amount of the 2027 Notes was classified as a long-term liability.

The following table sets forth the components of the 2027 Notes as of September 30, 2021, and December 31, 2020:

	September 30, 2021 (unaudited)	December 31, 2020
	(in thousands)	
Liability component:		
Principal	\$ 1,150,000	\$ 1,150,000
Less: debt discount, net of amortization	—	(331,074)
Less: debt issuance costs, net of amortization	(15,820)	(12,634)
Net carrying amount	<u>\$ 1,134,180</u>	<u>\$ 806,292</u>
Equity component recorded at issuance:		
2027 Notes	\$ —	\$ 335,667
Less: issuance costs	—	(5,264)
Net amount recorded in equity	<u>\$ —</u>	<u>\$ 330,403</u>

The total estimated fair value of the 2027 Notes was \$1.3 billion and \$1.3 billion as of September 30, 2021, and December 31, 2020, respectively. The fair value was determined based on the closing trading price per \$100 of the 2027 Notes as of the last day of trading for the period.

The interest expense recognized in relation to amortization of debt issuance costs was \$0.6 million and \$1.9 million for the three and nine months ended September 30, 2021, which represented an effective interest rate of 0.2% and 0.2% and for the three and nine months ended September 30, 2021.

Note Hedges

To minimize the impact of potential economic dilution upon conversion of the 2027 Notes, the Company entered into convertible note hedge transactions (the "2027 Note Hedges") with respect to its common stock concurrent with the issuance of the Notes. The 2027 Note Hedges cover, subject to customary adjustments, the number of shares of common stock initially underlying the Notes. The strike price of the 2027 Note Hedges will initially be approximately \$182.60 per share, which represents a premium of 75% over the last reported sale price of the

Company's common stock of \$104.34 per share on November 16, 2020, and is subject to certain adjustments under the terms of the 2027 Note Hedges.

The 2027 Note Hedges will expire upon maturity of the 2027 Notes. The 2027 Note Hedges are separate transactions and are not part of the terms of the 2027 Notes. Holders of the 2027 Notes will not have any rights with respect to the 2027 Note Hedges. The shares receivable related to the 2027 Note Hedges are excluded from the calculation of diluted earnings per share as they are anti-dilutive.

As these transactions meet certain accounting criteria, the 2027 Note Hedges are recorded in stockholders' equity and are not accounted for as derivatives. The Company paid an aggregate amount of \$90.0 million for the 2027 Note Hedges, which has been recorded as a reduction to additional paid-in capital and will not be remeasured.

9. Leases

The Company has entered into various operating lease agreements for office space, data center, lab and warehouse use, with remaining terms ranging from 1 year to 12 years some of which include one or more options to renew. As leases approach maturity, the Company considers various factors such as market conditions and the terms of any renewal options that may exist to determine whether it will renew the lease, as such, the Company does not include renewal options in its lease terms for calculating its lease liability, as the renewal options allow it to maintain operational flexibility and the Company is not reasonably certain it will exercise these renewal options at the time of the lease commencement. In July 2020, the Company entered into two lease agreements for additional office space in Palo Alto, California ("Palo Alto Lease") and in San Diego, California ("San Diego Lease"). The San Diego Lease has a term of 8 years with rent payments commencing in May 2022. The Palo Alto Lease has a term of 12 years with an option to renew the lease term for an additional ten years which has not been considered in the determination of ROU or the lease liability as the Company does not consider it reasonably certain of exercising the renewal option. Rent payments for the Palo Alto Lease will commence in October 2021. Both leases consist of fixed and variable payments and are being accounting for as operating leases. The Company took possession of these facilities in March 2021. The Company estimated the incremental borrowing rate to determine the present value of lease payments for the San Diego and Palo Alto leases using trading data of the Company's convertible debt adjusted for credit rating and market yield curves.

Operating lease expense was \$6.9 million and immaterial for the three months ended September 30, 2021, and 2020, respectively, and \$17.8 million and \$3.3 million for the nine months ended September 30, 2021, and 2020, respectively, which includes both lease and non-lease components (primarily common area maintenance charges and property taxes).

	<u>September 30, 2021</u> <u>(unaudited)</u>	<u>December 31, 2020</u>
Weighted-average remaining lease term (in years)	10.1	5.5
Weighted-average discount rate	4.09 %	8.07 %

The following table summarizes the Company's future principal contractual obligations for operating lease commitments as of September 30, 2021:

Year Ending December 31,		(unaudited) (in thousands)
Remainder of 2021	\$	2,737
2022		21,495
2023		28,972
2024		31,525
2025		32,081
2026 and thereafter		177,400
Total operating lease payments	\$	294,210
Less: imputed interest		(52,473)
Less: lease incentives		(16,678)
Total operating lease liabilities	\$	225,059

Finance leases are not material to the Company's condensed consolidated financial statements.

10. Commitments and Contingencies

Legal Proceedings

In addition to commitments and obligations incurred in the ordinary course of business, from time to time the Company may be subject to a variety of claims and legal proceedings, including claims from customers and vendors, pending and potential legal actions for damages, governmental investigations and other matters. For example, the Company has received, and may in the future continue to receive letters, claims or complaints from others alleging false advertising, patent infringement, violation of employment practices and trademark infringement. The Company has also instituted, and may in the future institute, additional legal proceedings to enforce its rights and seek remedies, such as monetary damages, injunctive relief and declaratory relief. The Company cannot predict the results of any such disputes, and despite the potential outcomes, the existence thereof may have an adverse material impact on the Company because of diversion of management time and attention as well as the financial costs related to resolving such disputes.

The Company and its affiliates are parties to the legal claims and proceedings described below. The Company is vigorously defending itself against those claims and in those proceedings. Significant developments in those matters are described below. If the Company is unsuccessful in defending, or if it determines to settle, any of these matters, it may be required to pay substantial sums, be subject to injunction and/or be forced to change how it operates its business, which could have a material adverse impact on its financial position or results of operations.

Unless otherwise stated, the Company is unable to reasonably estimate the loss or a range of possible loss for the matters described below. Often, it is not reasonably possible for the Company to determine that a loss is probable for a claim, or to reasonably estimate the amount of loss or a range of loss, because of the limited information available and the potential effects of future events and decisions by third parties, such as courts and regulators, that will determine the ultimate resolution of the claim. Many of the matters described are at preliminary stages, raise novel theories of liability or seek an indeterminate amount of damages. It is not uncommon for claims to be resolved over a number of years. The Company reviews loss contingencies at least quarterly to determine whether the loss probability has changed and whether it can make a reasonable estimate of the possible loss or range of loss. When the Company determines that a loss from a claim is probable and reasonably estimable, it records a liability in the amount of its estimate for the ultimate loss. The Company also provides disclosure when it is reasonably possible that a loss may be incurred or when it is reasonably possible that the amount of a loss will exceed its recorded liability.

Patent Disputes

In November 2017, the Company filed a lawsuit against Foundation Medicine, Inc. (“Foundation Medicine”) in the United States District Court for the District of Delaware. The Company has alleged that Foundation Medicine has infringed four of the Company’s digital sequencing technology patents. Foundation Medicine has asserted counterclaims of patent invalidity, unenforceability under the doctrine of inequitable conduct, license and non-infringement. The parties are seeking damages, injunctive relief and attorneys’ fees. Discovery in the lawsuit has closed, and a number of pre-trial motions were filed in September and October 2020.

Foundation Medicine also filed six petitions for inter partes review with the PTAB, challenging the patentability of all four of the patents asserted by the Company. The PTAB denied institution of inter partes review for four of the six petitions filed by Foundation Medicine and instituted inter partes review for the remaining two petitions. In November 2020, the Company filed a lawsuit against Foundation Medicine in the United States District Court for the District of Delaware, wherein the Company alleged that Foundation Medicine infringes seven of the Company’s patents. Foundation Medicine has asserted counterclaims of patent invalidity, unenforceability under the doctrine of inequitable conduct, license, non-infringement, and that the Company has violated Section 2 of Sherman Act. In December 2020, the Company filed a Motion for a Preliminary Injunction to prohibit Foundation Medicine from practicing two of the asserted patents.

In March 2021, the Company filed two lawsuits against Foundation Medicine GmbH in the District Court of Munich I in Germany, wherein the Company alleged that Foundation Medicine GmbH infringes two of the Company’s patents. Final hearings on this matter are scheduled for December 2021.

In May 2021, the Company entered into a binding term sheet with Foundation Medicine, which upon execution of a definitive settlement agreement, will result in the dismissal of all pending patent litigation worldwide between the parties.

In August 2020, the Company and Personal Genome Diagnostics, Inc. settled the patent infringement lawsuit brought by the Company. Under the terms of the confidential settlement, the lawsuit and counterclaims, as well as other challenges to the Company’s patents, have been dismissed.

In August 2021, TwinStrand Biosciences, Inc. (“TwinStrand Biosciences”) and the University of Washington filed a patent infringement suit in the United States District Court for the District of Delaware alleging that the Company infringes U.S. Patent Nos. 10,287,631; 10,689,699; 10,752,951; and 10,760,127. The Company answered the complaint in October 2021, denying TwinStrand Biosciences’ allegations. The court has not yet entered a case scheduling order.

False Advertising Dispute

In May 2021, the Company also filed a lawsuit against Natera, Inc. (“Natera”) in the United States District Court for the Northern District of California, wherein the Company alleged that Natera is misleading healthcare providers about the performance of the Company’s new oncology test, Guardant Reveal, by suggesting the test is inaccurate and/or insensitive, and inferior to Natera’s Signatera assay. The Company is seeking a Preliminary Injunction to prevent Natera from continuing to make false and misleading statements and to require Natera to take corrective actions. Natera has asserted counterclaims of false and misleading statements, false advertising, unlawful trade practices and unfair competition. Discovery is ongoing and the court has scheduled a hearing for November 2021 to hear argument on the Company’s motion to dismiss Natera’s counterclaims and for a case management conference.

11. Common Stock

The Company’s common stockholders are entitled to dividends if and when declared by the Company’s Board of Directors (the “Board of Directors”). As of September 30, 2021, and December 31, 2020, no dividends on the Company’s common stock had been declared by the Board of Directors.

The Company's common stock has been reserved for the following potential future issuances:

	September 30, 2021	December 31, 2020
	(unaudited)	
Shares underlying outstanding stock options	2,516,868	3,101,181
Shares underlying unvested restricted stock units	1,128,147	1,118,655
Market-based restricted stock units	2,260,764	3,391,148
Performance-based restricted stock units	383,341	377,922
Shares available for issuance under the 2018 Incentive Award Plan	5,803,707	1,819,223
Shares available for issuance under the 2018 Employee Stock Purchase Plan	1,475,593	1,536,491
Total	13,568,420	11,344,620

Follow-on Public Offering

In June 2020, the Company completed an underwritten public offering, in which it issued and sold 4,312,500 shares of its common stock at a price of \$84.00 per share. The Company received net proceeds of \$354.6 million after deducting underwriting discounts and commissions and offering expenses payable by the Company.

12. Stock-Based Compensation

Stock Option Activity

A summary of the Company's stock option activity under the 2012 Stock Plan (as amended and restated, the "2012 Plan") and the 2018 Incentive Award Plan (the "2018 Plan") and related information is as follows:

	Shares Available for Grant	Shares Subject to Options Outstanding	Options Outstanding		Aggregate Intrinsic Value
			Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	
			(unaudited)		(in thousands)
Balance as of December 31, 2020	1,819,223	3,101,181	\$ 15.80	6.9	\$ 350,670
2018 Plan annual increase ⁽¹⁾	3,689,000	—			
Granted	(164,147)	164,147	122.52		
Exercised	—	(629,246)	10.93		
Canceled	63,286	(119,214)	49.16		
Restricted stock units granted	(398,117)	—	—		
Restricted stock units canceled	241,627	—	—		
Market-based restricted stock units canceled	558,254	—	—		
Performance-based restricted stock units granted	(52,917)	—	—		
Performance-based restricted stock units canceled	47,498	—	—		
Balance as of September 30, 2021	5,803,707	2,516,868	\$ 22.40	6.5	\$ 259,451
Vested and Exercisable as of September 30, 2021		1,943,159	\$ 10.36	6.1	\$ 222,786

(1) Effective as of January 1, 2021, an additional 3,689,000 shares of common stock became available for issuance under the 2018 Plan, as a result of the operation of an automatic annual increase provision therein.

Aggregate intrinsic value represents the difference between the estimated fair value of the underlying common stock and the exercise price of outstanding, in-the-money options. The total intrinsic value of the options exercised was \$28.4 million and \$46.8 million for the three months ended September 30, 2021, and 2020, respectively, and \$77.8 million and \$97.1 million for the nine months ended September 30, 2021, and 2020, respectively.

The weighted-average grant date fair value of options granted was \$65.17 and \$49.73 per share for the three months ended September 30, 2021, and 2020, respectively, and \$72.14 and \$46.85 per share for the nine months ended September 30, 2021, and 2020, respectively.

Future stock-based compensation for unvested options as of September 30, 2021 was \$22.7 million, which is expected to be recognized over a weighted-average period of 2.8 years.

Restricted Stock Units

A summary of the Company's restricted stock unit activity excluding the performance-based and market-based restricted stock units under the 2012 Plan and the 2018 Plan and related information is as follows:

	Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value
	(unaudited)	
Balance as of December 31, 2020	1,118,655	\$ 92.89
Granted	398,117	130.30
Vested and released	(146,998)	89.37
Canceled	(241,627)	94.64
Balance as of September 30, 2021	<u>1,128,147</u>	<u>\$ 106.17</u>

Future stock-based compensation for unvested restricted stock units as of September 30, 2021, was \$105.2 million, which is expected to be recognized over a weighted-average period of 3.0 years.

Performance-based Restricted Stock Units

Since November 2020, the Compensation Committee of the Board of Directors started to approve, and the Company started to grant performance-based restricted stock units ("PSUs") under the 2018 Plan. The PSUs granted to employees consist of financial and operational metrics to be met over a performance period of 4 years and an additional service period requirement of six months after the performance metrics are met. The PSUs granted to a consultant consist of operational metrics to be met over a performance period of 4 years. The PSUs are expected to be expensed over a period of approximately 4 years to 4.5 years subject to meeting the respective performance metrics and service requirements. As of September 30, 2021, a significant portion of these PSUs are not expected to achieve the related performance metrics, and therefore, no stock-based compensation expense was recorded for the PSUs that were not probable to vest.

A summary of the Company's performance-based restricted stock unit activity under the 2018 Plan and related information is as follows:

	Performance-based Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value
	(unaudited)	
Balance as of December 31, 2020	377,922	\$ 113.40
Granted	52,917	135.94
Canceled	(47,498)	113.40
Balance as of September 30, 2021	<u>383,341</u>	<u>\$ 116.51</u>

Stock-based compensation recorded for the PSUs for the three and nine months ended September 30, 2021, was \$0.3 million and \$1.0 million, respectively. Future stock-based compensation for unvested PSUs that are probable to vest as of September 30, 2021 was \$4.4 million, which is expected to be recognized over a weighted-average period of 3.4 years.

Market-based Restricted Stock Units

In May 2020, the Board of Directors approved and granted 1,695,574 market-based restricted stock units ("MSUs") under the 2018 Plan to each of the Company's Co-Chief Executive Officers, which is subject to the achievement of market-based share price goals established by the Board of Directors. The MSUs consist of three separate tranches

and the vesting of each tranche is subject to the Company's common stock closing price being maintained at or above a predetermined share price goal for a period of 30 consecutive calendar days. The share price goal can be met any time during the seven-year performance period from the date of grant. Upon vesting, the MSUs must be held for a period of six to twelve months depending on the time of vesting within the seven-year performance period. The vesting of the MSUs can also be triggered upon a change in control event and achievement of a certain change in control price goal, or when there is a qualifying termination or in the event of death or disability. The following table presents additional information relating to each MSU award:

Tranche	Price Goal	Number of RSUs
Tranche 1	\$120 per share	565,192
Tranche 2	\$150 per share	565,191
Tranche 3	\$200 per share	565,191

The grant date fair values of the MSUs were determined using a Monte Carlo valuation model for each tranche. The related stock-based compensation expense for each tranche is recognized based on an accelerated attribution method over the estimated derived service period. If the related share price goal is achieved earlier than its expected derived service period, the stock-based compensation expense will be recognized as a cumulative catch-up expense from the grant date to that point in time in achieving the share price goal. The derived service period is the median duration of the successful stock price paths to meet the price goal for each tranche as simulated in the Monte Carlo valuation model. The Monte Carlo valuation model uses assumptions such as volatility, risk-free interest rate, cost of equity and dividend estimated for the performance period of the MSU. The weighted-average grant date fair value of the MSUs was \$67.00 and the weighted-average derived service period was estimated to be in the range of 0.83 – 2.07 years.

On January 1, 2021, Tranche 1 of the MSUs became vested because it has met both service requirement and market-based performance metrics as the predetermined share price goal of \$120 per share was achieved for a period of 30 consecutive calendar days. A summary of the Company's market-based restricted stock unit activity under the 2018 Plan and related information is as follows:

	Market-based Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value
	(unaudited)	
Balance as of December 31, 2020	3,391,148	\$ 67.00
Vested and released	(572,130)	70.58
Canceled ⁽¹⁾	(558,254)	70.58
Balance as of September 30, 2021	2,260,764	\$ 65.20

(1) Represented shares withheld by the Company for MSU holders' tax obligation upon release of vested MSUs.

Stock-based compensation for the MSUs was \$22.6 million and \$46.8 million, for the three months ended September 30, 2021, and 2020, respectively, and \$88.9 million and \$65.1 million, for the nine months ended September 30, 2021, and 2020, respectively, which was recorded in general and administrative expenses on the condensed consolidated statement of operations. Future stock-based compensation for unvested MSUs as of September 30, 2021 was \$26.4 million, which is expected to be recognized over a weighted-average period of 0.7 years. In the event of a change in control, a qualifying termination, death, disability or the share price goal occurring earlier than the estimated derived service period, the stock-based compensation relating to these MSUs could be accelerated. Any MSUs that remain unvested at the end of the seven-year performance period will automatically be forfeited and terminated without further consideration.

AMEA 2020 Equity Incentive Plan

In August 2020, the board of directors of the Joint Venture approved its 2020 Equity Incentive Plan (the "AMEA 2020 Plan"), under which the Joint Venture may grant equity incentive awards such as stock options, restricted stock, restricted stock units, stock appreciation rights and cash-based awards to its employees and non-employees. Stock options granted may be either incentive stock options or nonstatutory stock options. Incentive stock options may be granted only to employees of the Joint Venture or its affiliates. Nonstatutory stock options may be granted to

employees, directors and non-employee consultants. Stock options may be granted at an exercise price of not less than the fair market value of the Joint Venture's common stock on the date of grant, determined by the board of directors of the Joint Venture. Options generally vest over 4 years and expire as determined by the board of directors of the Joint Venture, provided that the term of options may not exceed 10 years from the date of grant. For individuals holding more than 10% of the total combined voting power of all classes of stock of the Joint Venture, the exercise price of an option will not be less than 110% of the fair market value of the Joint Venture's common stock on the date of grant, and the term of the option will not exceed 5 years. A total of 4,595,555 shares of the Joint Venture's Class B common stock are initially reserved for issuance under the AMEA 2020 Plan, and the number of shares may be increased in accordance with the terms of the AMEA 2020 Plan.

A summary of the Joint Venture's stock option activity under the AMEA 2020 Plan and related information is as follows:

	Shares Available for Grant	Shares Subject to Options Outstanding	Options Outstanding		
			Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
			(unaudited)		(in thousands)
Balance as of December 31, 2020	542,220	4,053,335	\$ 0.58	9.6	\$ —
Granted	(826,667)	826,667	0.58		
Exercised	—	(313,331)	0.58		
Canceled	382,780	(382,780)	0.58		
Balance as of September 30, 2021	98,333	4,183,891	\$ 0.58	9.0	\$ —
Vested and Exercisable as of September 30, 2021		2,341,259	\$ 0.58	8.9	\$ —

The weighted-average grant date fair value of options granted was \$0.33 per share for the three and nine months ended September 30, 2021. Future stock-based compensation for unvested options as of September 30, 2021 was \$0.6 million, which is expected to be recognized over a weighted-average period of 2.5 years.

Stock-Based Compensation Expense

The following table presents the effect of employee and non-employee related stock-based compensation expense including the Joint Venture:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited) (in thousands)			
Cost of precision oncology testing	\$ 676	\$ 428	\$ 2,316	\$ 1,138
Research and development expense	4,416	2,369	13,280	7,355
Sales and marketing expense	3,991	2,320	10,309	6,285
General and administrative expense	25,933	50,081	98,687	72,573
Total stock-based compensation expense	\$ 35,016	\$ 55,198	\$ 124,592	\$ 87,351

Valuation of Stock Options

The grant date fair value of stock options was estimated using a Black-Scholes option-pricing model with the following weighted-average assumptions including the Joint Venture:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)			
Expected term (in years)	5.94 – 6.04	5.95 – 6.04	5.49 – 6.04	5.50 – 6.10
Expected volatility	63.6% – 66.0%	63.6% – 68.4%	63.6% – 66.7%	63.6% – 73.3%
Risk-free interest rate	0.3% – 0.8%	0.3% – 0.4%	0.3% – 1.1%	0.3% – 1.6%
Expected dividend yield	—%	—%	—%	—%

The determination of the fair value of stock options on the date of grant using a Black-Scholes option-pricing model is affected by the estimated fair value of common stock of the Company and the Joint Venture, as well as assumptions regarding a number of variables that are complex, subjective and generally require significant judgment to determine. The valuation assumptions were determined as follows:

Fair Value of Common Stock

The fair value of the Company's common stock is determined by the closing price, on the date of grant, of its common stock, which is traded on the Nasdaq Global Select Market. The grant date fair value of the Joint Venture's common stock has been determined by the board of directors of the Joint Venture. The grant date fair value of the Joint Venture's common stock was determined using valuation methodologies which utilize certain assumptions including probability weighting of events, volatility, time to liquidation, a risk-free interest rate and an assumption for a discount for lack of marketability. In determining the fair value of the Joint Venture's common stock, the methodologies used to estimate the enterprise value of the Joint Venture were performed using methodologies, approaches, and assumptions consistent with the American Institute of Certified Public Accountants Accounting and Valuation Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*.

Expected Term

The expected term represents the period that the options granted are expected to be outstanding and is determined using the simplified method (based on the mid-point between the vesting date and the end of the contractual term) as the Company has concluded that its stock option exercise history does not provide a reasonable basis upon which to estimate expected term.

Expected Volatility

Prior to the commencement of trading of the Company's common stock on the Nasdaq Global Select Market on October 4, 2018 in connection with the IPO, there was no active trading market for the Company's common stock. Due to limited historical data for the trading of the Company's common stock, expected volatility is estimated based on the average volatility for comparable publicly traded peer group companies in the same industry plus the Company's expected volatility for the available periods. The comparable companies are chosen based on their similar size, stage in the life cycle or area of specialty.

The Joint Venture derived the expected volatility from the average historical volatility over a period approximately equal to the expected term of comparable publicly traded companies within its peer group that were deemed to be representative of future stock price trends as the Joint Venture does not have any trading history for its common stock. The Joint Venture will continue to apply this process until a sufficient amount of historical information regarding the volatility of its own stock price becomes available.

Risk-Free Interest Rate

The risk-free interest rate is based on the U.S. Treasury rate, with maturities similar to the expected term of the stock options.

Expected Dividend Yield

The Company and the Joint Venture does not anticipate paying any dividends in the foreseeable future and, therefore, uses an expected dividend yield of zero.

Valuation of MSUs

The estimated fair value of the MSUs was determined using a Monte Carlo simulation model. The valuation assumptions used were substantially consistent with the assumption used to value stock options with the exception of the following:

Expected Volatility

Due to limited historical data for the trading of the Company's common stock, expected volatility is estimated based on the average volatility for comparable publicly traded peer group companies and implied volatility of publicly traded options in the same industry plus the Company's expected volatility for the available periods. The comparable companies are chosen based on their similar size, stage in the life cycle or area of specialty.

Expected Term

The expected term represents the derived service period for the respective tranches which has been estimated using the Monte Carlo simulation model.

Risky Rate

The risky rate represents the Company's cost of equity.

Discount for Lack of Marketability

The discount for lack of marketability represents the discount applied for post vest term restrictions and has been derived using the Monte Carlo simulation model.

The following assumptions were used to calculate the stock-based compensation for MSUs: a weighted-average expected term of 0.83 – 2.07 years; expected volatility of 65.5%; a risk-free interest rate of 0.53%; a zero dividend yield; a risky rate (cost of equity) of 16%; and a discount for post-vesting restrictions of 10.4% – 14.5%.

2018 Employee Stock Purchase Plan

In September 2018, the Company's Board of Directors adopted and its stockholders approved the 2018 Employee Stock Purchase Plan (the "ESPP"). A total of 922,250 shares of common stock were initially reserved for issuance under the ESPP. Effective as of January 1, 2020, an additional 942,614 shares of common stock became available for issuance under the ESPP, as a result of the operation of an automatic annual increase provision therein.

Subject to any plan limitations, the ESPP allows eligible employees to contribute, normally through payroll deductions, up to 10% of their earnings for the purchase of the Company's common stock at a discounted price per share. The price at which common stock is purchased under the ESPP is equal to 85% of the fair market value of the Company's common stock on the first or last day of the offering period, whichever is lower. The ESPP provides for separate six-month offering periods beginning on May 15 and November 15 of each year.

Shares of common stock purchased under the ESPP were nil for the three months ended September 30, 2021, and 2020, respectively, and 60,898 and 58,164 for the nine months ended September 30, 2021, and 2020, respectively. The total compensation expense related to the ESPP was \$0.9 million and \$0.7 million for the three months ended

September 30, 2021, and 2020, respectively, and \$2.5 million and \$2.3 million for the nine months ended September 30, 2021, and 2020, respectively.

The fair value of the stock purchase right granted under the ESPP was estimated on the first day of each offering period using the Black-Scholes option pricing model. The valuation assumptions used were substantially consistent with the assumption used to value stock options with the exception of the expected term which was based on the term of each purchase period.

No ESPP shares were issued for the three months ended September 30, 2021, and 2020. The grant date fair value of the stock purchase right granted under the ESPP was estimated using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2021	2020
	(unaudited)	
Expected term (in years)	0.50	0.50
Expected volatility	50.8%	73.2%
Risk-free interest rate	—%	0.2%
Expected dividend yield	—%	—%

As of September 30, 2021, the unrecognized stock-based compensation expense related to the ESPP was \$0.4 million, which is expected to be recognized over the remaining term of the offering period of 0.1 years.

13. Net Loss Per Share Attributable to Guardant Health, Inc. Common Stockholders

The following table sets forth the computation of the basic and diluted net loss per share attributable to Guardant Health, Inc. common stockholders:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)			
	(in thousands, except per share data)			
Net loss	\$ (107,526)	\$ (71,670)	\$ (312,459)	\$ (153,238)
Adjustment of redeemable noncontrolling interest	—	(6,000)	(2,300)	(6,800)
Net loss attributable to Guardant Health, Inc. common stockholders, basic and diluted	<u>\$ (107,526)</u>	<u>\$ (77,670)</u>	<u>\$ (314,759)</u>	<u>\$ (160,038)</u>
Net loss per share attributable to Guardant Health, Inc. common stockholders, basic and diluted	<u>\$ (1.06)</u>	<u>\$ (0.78)</u>	<u>\$ (3.11)</u>	<u>\$ (1.66)</u>
Weighted-average shares used in computing net loss per share attributable to Guardant Health, Inc. common stockholders, basic and diluted	<u>101,420</u>	<u>99,554</u>	<u>101,184</u>	<u>96,659</u>

Since the Company was in a loss position for all periods presented, basic net loss per share attributable to Guardant Health, Inc. common stockholders is the same as diluted net loss per share attributable to Guardant Health, Inc. common stockholders, as the inclusion of all potential shares of common stock outstanding would have been anti-dilutive. The following weighted-average common stock equivalents were excluded from the calculation of diluted net loss per share attributable to Guardant Health, Inc. common stockholders for the periods presented as they had an anti-dilutive effect:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited) (in thousands)			
Stock options issued and outstanding ⁽¹⁾	2,628	3,662	2,753	4,021
Restricted stock units	1,185	650	1,151	563
MSUs	2,261	3,391	2,389	1,577
PSUs	395	—	404	—
ESPP obligation	51	38	47	39
Common stock subject to repurchase	6	17	9	20
Convertible senior notes	8,225	—	8,225	—
Total	14,751	7,758	14,978	6,220

(1) Excludes stock options of 4,183,891 shares outstanding under the AMEA 2020 Plan as of September 30, 2021.

14. Income Taxes

The income tax expense for the three and nine months ended September 30, 2021 was determined based upon estimates of the Company's effective income tax rates in various jurisdictions. The difference between the Company's effective income tax rate and the U.S. federal statutory rate is primarily attributable to state income taxes, foreign income taxes, the effect of certain permanent differences, and full valuation allowance against net deferred tax assets.

The income tax expense for the three and nine months ended September 30, 2021, and 2020, relates primarily to state minimum income tax and income tax on the Company's earnings in foreign jurisdictions.

15. Segment and Geographic Information

The Company operates as one operating segment. The Company's chief operating decision makers are its Co-Chief Executive Officers, who review financial information presented on a consolidated basis for the purposes of making operating decisions, assessing financial performance and allocating resources.

The following table sets forth the Company's revenue by geographic areas based on the customers' locations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited) (in thousands)			
United States	\$ 90,421	\$ 65,613	\$ 250,589	\$ 191,648
International ⁽¹⁾	4,358	8,956	14,956	16,766
Total revenue	\$ 94,779	\$ 74,569	\$ 265,545	\$ 208,414

(1) No single country outside of the United States accounted for more than 10% of total revenue during the three and nine months ended September 30, 2021, and 2020, respectively.

As of September 30, 2021, and December 31, 2020, 98% and 94%, respectively, of the Company's long-lived assets and right-of-use assets are located in the United States.

16. Related Party Transactions

As discussed in Note 3, *Investment in Joint Venture*, the Company and an affiliate of SoftBank formed and capitalized the Joint Venture to accelerate commercialization of its products in Asia, the Middle East and Africa. The Company has consolidated the financial position, results of operations and cash flows of the Joint Venture in its financial statements and all intercompany balances have been eliminated in consolidation.

The Company and its subsidiaries may, in the ordinary course of business, have transactions with unaffiliated companies of which certain of the Company's directors are directors and/or executive officers. The Company believes that such transactions are on the same terms generally offered by such other companies to other entities in comparable transactions. The Company does not consider the amounts involved in such transactions to be material in relation to its businesses, the businesses of such other companies or the interests of the directors involved.

17. Subsequent Events

On November 1, 2021, the Company exercised its call right contained in its joint venture agreement with SoftBank. As a result of the exercise of these rights, the Company will purchase all Joint Venture shares held by SoftBank at a price to be negotiated between the parties or established by a third-party valuation firm utilizing the financial and operating assumptions outlined in the joint venture agreement. Pursuant to the joint venture agreement, the fair value of the Joint Venture will be no less than an amount that yields a 20% internal rate of return on each tranche of capital invested by SoftBank and its affiliates in the Joint Venture. Settlement of the aggregate purchase price will be in cash, shares, or a combination of cash and shares, at SoftBank's discretion. The Company expects to purchase all shares held by SoftBank in the Joint Venture on or before the end of the second quarter of 2022. No changes to the fair value of the redeemable noncontrolling interest have been reflected as of end of September 30, 2021.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risk and uncertainties, such as statements of our plans, objectives, beliefs, expectations and intentions. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the year ended December 31, 2020 and in Part II, Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q.

Overview

We are a leading precision oncology company focused on helping conquer cancer globally through use of our proprietary tests, vast data sets and advanced analytics. We believe that the key to conquering cancer is unprecedented access to its molecular information throughout all stages of the disease, which we intend to enable by a liquid and tissue biopsy. Our Guardant Health Oncology Platform is designed to leverage our capabilities in technology, clinical development, regulatory and reimbursement to drive commercial adoption, accelerate drug development, improve patient clinical outcomes and lower healthcare costs. In pursuit of our goal to manage cancer across all stages of the disease, we provide our Guardant360, Guardant360 LDT, Guardant360 CDx, and GuardantOMNI liquid biopsy-based tests for advanced stage cancer. Our Guardant360 CDx test was the first comprehensive liquid biopsy test approved by the U.S. Food and Drug Administration, or the FDA, to provide tumor mutation profiling with solid tumors and to be used as a companion diagnostic in connection with non-small cell lung cancer, or NSCLC, patients who may benefit from treatment with osimertinib (*EGFR* exon 19 deletions, exon 20 T790M or exon 21 L858R mutations), amivantamab-vmjw (*EGFR* exon 20 insertion mutations), and sotorasib (*KRAS* G12C mutations), which have been developed by our biopharmaceutical customers AstraZeneca, Janssen Biotech and Amgen, respectively. In February 2021, we launched our Guardant Reveal liquid biopsy-based tests for residual and recurring cancer to first address the need in Stage II-III colorectal cancer. In June 2021, we launched Guardant360 TissueNext, our first tissue-based test which will be used to identify patients with advanced cancer who may benefit from biomarker-informed treatment, and Guardant360 Response which will be used to measure early indications to patients' response to treatment up to eight weeks earlier than response evaluation criteria in solid tumors. We are developing tests under our LUNAR program which aims to address the needs of early stage cancer patients with neoadjuvant and adjuvant treatment selection, cancer survivors with surveillance, asymptomatic individuals eligible for cancer screening, and individuals at a higher risk for developing cancer with early detection. We have also developed our GuardantINFORM platform to further accelerate precision oncology drug development by biopharmaceutical companies by offering them an in-silico research platform to unlock further insights into tumor evolution and treatment resistance across various biomarker-driven cancers.

We perform our tests in our clinical laboratory located in Redwood City, California. Our laboratory is certified pursuant to the Clinical Laboratory Improvement Amendments of 1988, or CLIA, accredited by the College of American Pathologists, or CAP, permitted by the New York State Department of Health, or NYSDOH, and licensed in California and four other states.

We generated total revenue of \$94.8 million and \$74.6 million for the three months ended September 30, 2021, and 2020, respectively, and \$265.5 million and \$208.4 million for the nine months ended September 30, 2021, and 2020, respectively. We also incurred net losses of \$107.5 million and \$71.7 million for the three months ended September 30, 2021, and 2020, respectively, and \$312.5 million and \$153.2 million for the nine months ended September 30, 2021, and 2020, respectively. We have funded our operations to date principally from the sale of our stock, convertible senior notes, and revenue from our precision oncology testing and development services and other. As of September 30, 2021, we had cash, cash equivalents and marketable securities of \$1.7 billion.

Factors affecting our performance

We believe there are several important factors that have impacted and that we expect will impact our operating performance and results of operations, including:

- **Testing volume, pricing and customer mix.** Our revenue and costs are affected by the volume of testing and mix of customers from period to period. We evaluate both the volume of tests that we perform for patients on behalf of clinicians and the number of tests we perform for biopharmaceutical companies. Our performance depends on our ability to retain and broaden adoption with existing customers, as well as attract new customers. We believe that the test volume we receive from clinicians and biopharmaceutical companies are indicators of growth in each of these customer verticals. Customer mix for our tests has the potential to significantly affect

our results of operations, as the average selling price for biopharmaceutical sample testing is currently higher than our average reimbursement for clinical tests because we are not a contracted provider for, or our tests are not covered by clinical patients' insurance for, the majority of the tests that we perform for patients on behalf of clinicians. Revenue from clinical tests for patients covered by Medicare represented approximately 48% and 44% of our precision oncology revenue from clinical customers during the three months ended September 30, 2021, and 2020, respectively, and approximately 44% and 39% of our precision oncology revenue from clinical customers during the nine months ended September 30, 2021, and 2020, respectively.

- **Payer coverage and reimbursement.** Our revenue depends on achieving broad coverage and reimbursement for our tests from third-party payers, including both commercial and government payers. Precision oncology revenue from tests for clinical customers is calculated based on our expected cash collections, using the estimated variable consideration. The variable consideration is estimated based on historical collection patterns as well as the potential for changes in future reimbursement behavior by one or more payers. Estimation of the impact of the potential for changes in reimbursement requires significant judgment and considers payers' past patterns of changes in reimbursement as well as any stated plans to implement changes. Any cash collections over the expected reimbursement period exceeding the estimated variable consideration is recorded in future periods based on actual cash received. Payment from commercial payers can vary depending on whether we have entered into a contract with the payers as a "participating provider" or do not have a contract and are considered a "non-participating provider". Payers often reimburse non-participating providers, if at all, at a lower amount than participating providers. Because we are not contracted with these payers, they determine the amount that they are willing to reimburse us for any of our tests and they can prospectively and retrospectively adjust the amount of reimbursement, adding to the complexity in estimating the variable consideration. When we contract with a payer to serve as a participating provider, reimbursements by the payer are generally made pursuant to a negotiated fee schedule and are limited to only covered indications or where prior approval has been obtained. Becoming a participating provider can result in higher reimbursement amounts for covered uses of our tests and, potentially, no reimbursement for non-covered uses identified under the payer's policies or the contract. As a result, the potential for more favorable reimbursement associated with becoming a participating provider may be offset by a potential loss of reimbursement for non-covered uses of our tests. Current Procedural Terminology, or CPT, coding plays a significant role in how our tests are reimbursed both from commercial and governmental payers. In addition, Z-Code Identifiers are used by certain payers, including under Medicare's Molecular Diagnostic Services Program, or MoDx, to supplement CPT codes for our molecular diagnostics tests. Changes to the codes used to report to payers may result in significant changes in its reimbursement. If their policies were to change in the future to cover additional cancer indications, we anticipate that our total reimbursement would increase. In March 2020, we began to receive reimbursement from Medicare for claims submitted, with respect to Guardant360 clinical tests performed for qualifying patients diagnosed with solid tumor cancers of non-central nervous system origin other than NSCLC. In May 2020, Noridian issued a coverage article and confirmed limited Medicare coverage for our Guardant360 test for qualifying patients diagnosed with solid tumor cancers of non-central nervous system origin who meet the criteria of Medicare's National Coverage Determination for Next Generation Sequencing established in March 2018. Following the FDA approval of our Guardant360 CDx test, a new Z-Code Identifier was issued in August 2020. In January 2021, a proprietary laboratory analyses, or PLA code was issued for our Guardant360 CDx with an effective date in April 2021. Additionally, based on this new PLA code, we applied to the Centers for Medicare and Medicaid Services or CMS for our Guardant360 CDx test to become an advanced diagnostic laboratory test, or ADLT. In March 2021, CMS approved ADLT status to the Guardant360 CDx test, which would allow us to bill Medicare at the lowest available commercial rate for the first three quarters from April 1, 2021. After the initial three quarters, we can bill Medicare for Guardant360 CDx services at the median rate of claims paid by commercial payers. We are in the process of negotiating reimbursement for our Guardant Reveal, Guardant Response and Guardant360 TissueNext tests from commercial and governmental payers. Due to the inherent variability and unpredictability of the reimbursement landscape, including related to the amount that payers reimburse us for any of our tests, previously recorded revenue adjustments are not indicative of future revenue adjustments from actual cash collections, which may fluctuate significantly. Additionally, if coding changes were to occur, payments for certain uses of our tests could be reduced, put on hold, or eliminated. This variability and unpredictability could increase the risk of future revenue reversal and result in our failing to meet any previously publicly stated guidance we may provide.
- **Biopharmaceutical customers.** Our revenue also depends on our ability to attract, maintain and expand relationships with biopharmaceutical customers. As we continue to develop these relationships, we expect to support a growing number of clinical trials globally and continue to have opportunities to offer our platform to such customers for development services, including companion diagnostic development, novel target discovery and validation, as well as clinical trial enrollment. For example, our tests are being developed as companion diagnostics under collaborations with biopharmaceutical companies, including AstraZeneca, Amgen, Daiichi Sankyo, Janssen Biotech, and Radius Health.

- **Research and development.** A significant aspect of our business is our investment in research and development, including the development of new products. In particular, we have invested heavily in clinical studies as we believe these studies are critical to gaining physician adoption and driving favorable coverage decisions by payers. With respect to our LUNAR program, we initiated a prospective screening study, which we refer to as the ECLIPSE trial, aiming to recruit approximately 13,000 patients and evaluate the performance of our LUNAR-2 assay in detecting colorectal cancer in average-risk adults. We have expended considerable resources, and expect to increase such expenditures over the next few years, to support our research and development programs with the goal of fueling further innovation.
- **International expansion.** A component of our long-term growth strategy is to expand our commercial footprint internationally, and we expect to increase our sales and marketing expense to execute on this strategy. We currently offer our tests in countries outside the United States primarily through distributor relationships or direct contracts with hospitals or partnerships with research organizations. In May 2018, we formed and capitalized a joint venture, Guardant Health AMEA, Inc., which we refer to as the Joint Venture, with SoftBank, relating to the sale, marketing and distribution of our tests generally outside the Americas and Europe. We expect to rely on the Joint Venture to accelerate commercialization of our products in Asia, the Middle East and Africa.
- **Sales and marketing expense.** Our financial results have historically, and will likely continue to, fluctuate significantly based upon the impact of our sales and marketing expense, increase in headcount, and in particular, our various marketing programs around existing and new product introductions.
- **General and administrative expense.** Our financial results have historically, and will likely continue to, fluctuate significantly based upon the impact of our general and administrative expense, and in particular, our stock-based compensation expense. Our equity awards, including market-based and performance-based restricted stock units, are intended to retain and incentivize employees to lead us to sustained, long-term superior financial and operational performance.
- **COVID-19 Global Pandemic.** The global outbreak of coronavirus 2019, or COVID-19, has disrupted, and we expect will continue to disrupt, our operations. To protect the health and well-being of our workforce, partners, vendors and customers, we have provided free COVID-19 testing for all of our employees, contractors and their dependents, implemented social distance and building entry policies at work, and followed California's public health orders and the guidance from the Centers for Disease Control and Prevention. The COVID-19 global pandemic has negatively affected, and we expect will continue to negatively affect, our revenue and our clinical studies. For example, our biopharmaceutical customers are facing challenges in recruiting patients and in conducting clinical trials to advance their pipelines, for which our tests could be utilized. In addition, disruptions caused by the pandemic have adversely affected the quantity and quality of certain sequencers, reagents, blood tubes and other similar materials that are critical to our commercial and research and development programs. We currently have a limited amount of stock of these components. Failure in the future to secure sufficient supply of critical components could materially and adversely affect our ability to manufacture or supply marketed products and product candidates or complete our ongoing research and development programs on the timelines previously established, which could materially and adversely affect our business and future prospects. The severity of the impact on our business for the remainder of calendar year 2021 and beyond will depend on a number of factors, including the duration and severity of the pandemic and the impact of any variants of the virus on us, our customers, and our suppliers. In August 2020, we launched our Guardant-19 test and received the FDA's emergency use authorization for use in the detection of the novel coronavirus. The test was being offered to our employees and to select partner organizations via our CLIA-certified clinical laboratory. Effective August 2021, we have discontinued offering the test to third parties.

While each of these areas presents significant opportunities for us, they also pose significant risks and challenges that we must address. See Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020, and Part II, Item 1A, "Risk Factors" of this Quarterly Report on Form 10-Q, for more information.

Components of results of operations

Revenue

We derive our revenue from two sources: (i) precision oncology testing and (ii) development services and other.

Precision oncology testing. Precision oncology testing revenue is generated from sales of our tests to clinical and biopharmaceutical customers. In the United States, through September 30, 2021, we generally performed tests as an out-of-network service provider without contracts with health insurance companies. We submit claims for payment for tests performed for patients covered by U.S. private payers. We submit claims to Medicare for reimbursement for Guardant360 clinical testing performed for qualifying patients diagnosed with solid tumor cancers of non-central nervous system origin and for Guardant360 CDx clinical testing performed for qualifying patients diagnosed with solid tumor cancers who meet the criteria of Medicare's National Coverage Determination for Next Generation Sequencing established since March 2018. Revenue from clinical tests for patients covered by Medicare represented approximately 48% and 44% of our precision oncology revenue from clinical customers during the three months ended September 30, 2021, and 2020, respectively, and 44% and 39% of our precision oncology revenue from clinical customers during the nine months ended September 30, 2021, and 2020, respectively.

Development services and other. Development services and other revenue primarily represents services, other than precision oncology testing, that we provide to biopharmaceutical companies and large medical institutions. It includes companion diagnostic development and regulatory approval services, clinical trial setup, monitoring and maintenance, liquid biopsy testing development and support, as well as GuardantConnect, GuardantINFORM, and kits fulfillment related revenues. We collaborate with biopharmaceutical companies in the development and clinical trials of new drugs. As part of these collaborations, we provide services related to regulatory filings to support companion diagnostic device submissions for our liquid biopsy panels. Under these arrangements, we generate revenue from progression of our collaboration efforts, as well as from provision of on-going support. Development services and other revenue can vary over time as different projects start and complete.

Costs and operating expenses

Cost of precision oncology testing. Cost of precision oncology testing generally consists of cost of materials, inventory write-downs, direct labor, including employee benefits, bonus, and stock-based compensation; equipment and infrastructure expenses associated with processing liquid biopsy test samples such as sample accessioning, library preparation, sequencing, quality control analyses and shipping charges to transport blood samples; freight; curation of test results for physicians; and license fees due to third parties. Infrastructure expenses include depreciation of laboratory equipment, rent costs, depreciation of leasehold improvements and information technology costs. Costs associated with performing our tests are recorded as the tests are performed regardless of whether revenue was recognized with respect to the tests. Royalties for licensed technology are calculated as a percentage of revenues generated using the associated technology and recorded as expense at the time the related revenue is recognized. One-time royalty payments related to signing of license agreements or other milestones, such as issuance of new patents, are amortized to expense over the expected useful life of the patents. While we do not believe the technologies underlying these licenses are necessary to permit us to provide our tests, we do believe these technologies are potentially valuable and of possible strategic importance to us or our competitors.

We expect the cost of precision oncology testing to generally increase in line with the increase in the number of tests we perform, but we expect the cost per test to decrease modestly over time due to the efficiencies we may gain as test volume increases, and from automation and other cost reductions.

Cost of development services and other. Cost of development services and other primarily includes costs incurred for the performance of development services requested by our customers comprising of direct labor and material costs including any inventory write-downs. For development of new products, costs incurred before technological feasibility has been achieved are reported as research and development expenses, while costs incurred thereafter are reported as cost of revenue. Cost of development services and other will vary depending on the nature, timing and scope of customer projects.

Research and development expense. Research and development expenses consist of costs incurred to develop technology and include salaries and benefits including stock-based compensation, reagents and supplies used in research and development laboratory work, infrastructure expenses, including allocated facility occupancy and information technology costs, contract services, other outside costs and costs to develop our technology capabilities. Research and development expenses also include costs related to activities performed under contracts with biopharmaceutical companies before technological feasibility has been achieved. Research and development costs are expensed as incurred. Payments made prior to the receipt of goods or services to be used in research and development are deferred and recognized as expense in the period in which the related goods are received or services are rendered. Costs to develop our technology capabilities are recorded as research and development unless they meet the criteria to be capitalized as internal-use software costs.

We expect that our research and development expenses will continue to increase in absolute dollars as we continue to innovate and develop additional products, expand our genomic and medical data management resources and conduct our ongoing and new clinical trials.

Sales and marketing expense. Our sales and marketing expenses are expensed as incurred and include costs associated with our sales organization, including our direct sales force and sales management, client services, marketing and reimbursement, medical affairs, as well as business development personnel who are focused on our biopharmaceutical customers. These expenses consist primarily of salaries, commissions, bonuses, employee benefits, travel expenses and stock-based compensation, as well as marketing, sales incentives, and educational activities and allocated overhead expenses.

We expect our sales and marketing expenses to increase in absolute dollars as we expand our sales force, increase our presence within and outside of the United States, and increase our marketing activities to drive further awareness and adoption of our tests.

General and administrative expense. Our general and administrative expenses include costs for our executive, accounting and finance, information technology, legal and human resources functions. These expenses consist principally of salaries, bonuses, employee benefits, travel expenses and stock-based compensation, as well as professional services fees such as consulting, audit, tax and legal fees, and general corporate costs and allocated overhead expenses.

We expect that our general and administrative expenses will continue to increase in absolute dollars, primarily due to increased stock-based compensation expense, including resulting from the market-based restricted stock units granted to our Co-Chief Executive Officers in May 2020. These expenses, though expected to increase in absolute dollars, are expected to decrease modestly as a percentage of revenue in the long term, though they may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses being incurred.

Interest income

Interest income consists of interest earned on our cash, cash equivalents and marketable securities.

Interest expense

Interest expense consists primarily of charges relating to amortization of debt issuance costs.

Other income (expense), net

Other income (expense), net consists of foreign currency exchange gains and losses, payments due and received in relation to the settlement of a patent dispute, net of credit losses, and the relief fund grant from the Department of Health and Human Services, or HHS, under the U.S. Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

Results of operations

The following table set forth the significant components of our results of operations for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)			
	(in thousands)			
Revenue:				
Precision oncology testing	\$ 79,272	\$ 60,384	\$ 215,605	\$ 171,621
Development services and other	15,507	14,185	49,940	36,793
Total revenue	94,779	74,569	265,545	208,414
Costs and operating expenses:				
Cost of precision oncology testing ⁽¹⁾	29,665	16,699	78,142	52,699
Cost of development services and other	1,151	4,488	11,348	11,429
Research and development expense ⁽¹⁾	70,968	36,245	190,200	109,580
Sales and marketing expense ⁽¹⁾	50,228	25,095	132,282	75,225
General and administrative expense ⁽¹⁾	50,055	66,294	166,366	123,265
Total costs and operating expenses	202,067	148,821	578,338	372,198
Loss from operations	(107,288)	(74,252)	(312,793)	(163,784)
Interest income	689	2,313	3,277	8,271
Interest expense	(644)	(8)	(1,934)	(30)
Other income (expense), net	(187)	345	(720)	2,421
Loss before provision for income taxes	(107,430)	(71,602)	(312,170)	(153,122)
Provision for income taxes	96	68	289	116
Net loss	\$ (107,526)	\$ (71,670)	\$ (312,459)	\$ (153,238)

(1) Amounts include stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)			
	(in thousands)			
Cost of precision oncology testing	\$ 676	\$ 428	\$ 2,316	\$ 1,138
Research and development expense	4,416	2,369	13,280	7,355
Sales and marketing expense	3,991	2,320	10,309	6,285
General and administrative expense	25,933	50,081	98,687	72,573
Total stock-based compensation expense	\$ 35,016	\$ 55,198	\$ 124,592	\$ 87,351

Comparison of the Three Months Ended September 30, 2021 and 2020

Revenue

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			
Precision oncology testing	\$ 79,272	\$ 60,384	\$ 18,888	31 %
Development services and other	15,507	14,185	1,322	9 %
Total revenue	\$ 94,779	\$ 74,569	\$ 20,210	27 %

Total revenue was \$94.8 million for the three months ended September 30, 2021, compared to \$74.6 million for the three months ended September 30, 2020, an increase of \$20.2 million, or 27%.

Precision oncology testing revenue increased to \$79.3 million for the three months ended September 30, 2021, from \$60.4 million for the three months ended September 30, 2020, an increase of \$18.9 million, or 31%. This increase in precision oncology testing revenue was primarily due to an increase in sample volume.

Precision oncology revenue from tests for clinical customers increased to \$61.3 million in the three months ended September 30, 2021, from \$48.3 million in the three months ended September 30, 2020, primarily due to an increase in the number of Guardant360 tests and an overall increase in average selling price per test, offset by a decrease of \$8.2 million in cash collections exceeding the estimated variable consideration related to samples processed in previous periods. Tests for clinical customers increased to 22,806 for the three months ended September 30, 2021, from 16,950 for the three months ended September 30, 2020.

Precision oncology revenue from tests for biopharmaceutical customers was \$17.9 million in the three months ended September 30, 2021, and \$12.0 million in the three months ended September 30, 2020, respectively. Tests for biopharmaceutical customers increased to 4,839 for the three months ended September 30, 2021, from 3,071 for the three months ended September 30, 2020, primarily due to an increase in the number of biopharmaceutical customers and their contracted projects.

Development services and other revenue increased to \$15.5 million for the three months ended September 30, 2021 from \$14.2 million for the three months ended September 30, 2020, an increase of \$1.3 million, or 9%. This increase in development services and other revenue was primarily due to progression of collaboration projects from biopharmaceutical customers for companion diagnostic development services during the three months ended September 30, 2021.

Our revenue may be adversely impacted by the COVID-19 pandemic in future periods depending on the duration and severity of the pandemic and the impact of any variants of the virus.

Cost of Revenue and Gross Margin

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			
Cost of revenue	\$ 30,816	\$ 21,187	\$ 9,629	45 %
Gross profit	\$ 63,963	\$ 53,382		
Gross margin	67 %	72 %		

Cost of revenue was \$30.8 million for the three months ended September 30, 2021, compared to \$21.2 million for the three months ended September 30, 2020, an increase of \$9.6 million, or 45%.

Cost of precision oncology testing revenue was \$29.7 million for the three months ended September 30, 2021, compared to \$16.7 million for the three months ended September 30, 2020, an increase of \$13.0 million, or 78%. This increase in cost of precision oncology testing was primarily due to a \$7.0 million increase in material costs, \$4.8 million increase in labor and manufacturing overhead costs, and a \$1.3 million increase in other costs including costs related to freight and curation of test results for physicians.

Cost of development services and other was \$1.2 million for the three months ended September 30, 2021, compared to \$4.5 million for the three months ended September 30, 2020, a decrease of \$3.3 million, or 74%. This decrease in cost of development services and other was primarily due to timing of work performed on our companion diagnostic development service contracts.

Gross margin for the three months ended September 30, 2021, was 67% compared to 72% for the three months ended September 30, 2020. The decrease in gross margin is primarily due to higher average cost per test resulting from the varied product mix of precision oncology testing, partially offset by gross margin improvement of development services and other. Our gross margin may be adversely impacted by the COVID-19 pandemic for the affected periods.

Operating Expenses

Research and development expense

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			
Research and development	\$ 70,968	\$ 36,245	\$ 34,723	96 %

Research and development expenses were \$71.0 million for the three months ended September 30, 2021, compared to \$36.2 million for the three months ended September 30, 2020, an increase of \$34.7 million, or 96%. This increase in research and development expense was primarily due to an increase of \$13.2 million in personnel-related costs for employees in our research and development group, including a \$2.0 million increase in stock-based compensation, as we increased our headcount to support continued investment in our technology and clinical studies. The increase is also attributable to an increase of \$9.9 million in material costs, an increase of \$6.3 million in outside service costs, and an increase of \$3.5 million related to allocated facilities and information technology infrastructure costs.

Sales and marketing expense

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			
Sales and marketing	\$ 50,228	\$ 25,095	\$ 25,133	100 %

Selling and marketing expenses were \$50.2 million for the three months ended September 30, 2021, compared to \$25.1 million for the three months ended September 30, 2020, an increase of \$25.1 million, or 100%. This increase was primarily due to an increase of \$18.6 million in personnel-related costs, including a \$1.7 million increase in stock-based compensation, associated with the expansion of our commercial organization. The increase is also attributable to an increase of \$3.2 million related to allocated facilities and information technology infrastructure costs, and an increase of \$2.4 million related to marketing activities.

General and administrative expense

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			
General and administrative	\$ 50,055	\$ 66,294	\$ (16,239)	(24)%

General and administrative expenses were \$50.1 million for the three months ended September 30, 2021, compared to \$66.3 million for the three months ended September 30, 2020, a decrease of \$16.2 million, or 24%. This decrease was primarily due to the vesting of Tranche 1 shares of market-based restricted stock units on January 1, 2021, granted to our Co-Chief Executive Officers, which resulted in a reduction of stock-based compensation expense in the amount of \$24.1 million, offset by an increase of \$3.7 million in professional service expenses related to outside legal, accounting, consulting and IT services, and an increase of \$1.8 million related to allocated facilities and information technology infrastructure costs.

Interest income

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			

Interest income	\$	689	\$	2,313	\$	(1,624)	(70)%
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Interest income was \$0.7 million for the three months ended September 30, 2021, compared to \$2.3 million for the three months ended September 30, 2020, a decrease of \$1.6 million, or 70%. This decrease was primarily due to a significant decrease in interest rate as the U.S. Federal Reserve lowered the risk-free interest rate to nearly zero, partially offset by an increase in cash, cash equivalents and marketable securities related to the receipt of cash proceeds from borrowings on our convertible senior notes issued in November 2020.

Interest expense

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			

Interest expense	\$	(644)	\$	(8)	(636)	*
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* Not meaningful

Interest expense was \$0.6 million for the three months ended September 30, 2021, primarily due to the amortization of debt issuance costs. Interest expense was immaterial for the three months ended September 30, 2020.

Other income (expense), net

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			

Other income (expense), net	\$	(187)	\$	345	\$	(532)	*
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* Not meaningful

Other income (expense), net included foreign currency exchange losses of \$0.1 million for the three months ended September 30, 2021. For the three months ended September 30, 2020, other income (expense), net included foreign currency exchange gains of \$0.3 million.

Provision for income taxes

	Three Months Ended September 30,		Change	
	2021	2020	\$	%
	(unaudited)			
	(in thousands)			

Provision for income taxes	\$	96	\$	68	\$	28	41 %
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Provision for income taxes was immaterial for the three months ended September 30, 2021, and 2020.

Comparison of the Nine Months Ended September 30, 2021 and 2020

Revenue

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
Precision oncology testing	\$ 215,605	\$ 171,621	\$ 43,984	26 %
Development services and other	49,940	36,793	13,147	36 %
Total revenue	\$ 265,545	\$ 208,414	\$ 57,131	27 %

Total revenue was \$265.5 million for the nine months ended September 30, 2021, compared to \$208.4 million for the nine months ended September 30, 2020, an increase of \$57.1 million, or 27%.

Precision oncology testing revenue increased to \$215.6 million for the nine months ended September 30, 2021 from \$171.6 million for the nine months ended September 30, 2020, an increase of \$44.0 million, or 26%. This increase in precision oncology testing revenue was primarily due to an increase in sample volume.

Precision oncology revenue from tests for clinical customers increased to \$172.2 million for the nine months ended September 30, 2021, from \$125.9 million for the nine months ended September 30, 2020, mainly due to an increase in the number of physicians ordering Guardant360 tests and an overall increase in average selling price per test, offset by a decrease of \$4.1 million in excess cash collections exceeding the estimated variable consideration related to samples processed in previous periods. Tests for clinical customers increased to 62,026 for the nine months ended September 30, 2021, from 45,901 for the nine months ended September 30, 2020.

Precision oncology revenue from tests for biopharmaceutical customers was \$43.4 million in the nine months ended September 30, 2021, and \$45.7 million in the nine months ended September 30, 2020, respectively. The decrease in revenue was primarily due to a decrease in average selling price per test, partially offset by an increase in tests. Tests for biopharmaceutical customers increased to 12,014 for the nine months ended September 30, 2021, from 11,142 for the nine months ended September 30, 2020, primarily due to an increase in the number of biopharmaceutical customers and their contracted projects.

Development services and other revenue increased to \$49.9 million for the nine months ended September 30, 2021, from \$36.8 million for the nine months ended September 30, 2020, an increase of \$13.1 million, or 36%. This increase in development services and other revenue was primarily due to progression of collaboration projects from biopharmaceutical customers for companion diagnostic development services and receipt of regulatory approval of two of our companion diagnostic programs during the nine months ended September 30, 2021.

Our revenue may be adversely impacted by the COVID-19 pandemic in future periods depending on the duration and severity of the pandemic and the impact of any variants of the virus.

Cost of Revenue and Gross Margin

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(dollars in thousands)				
Cost of revenue	\$ 89,490	\$ 64,128	\$ 25,362	40 %
Gross profit	\$ 176,055	\$ 144,286		
Gross margin	66 %	69 %		

Cost of revenue was \$89.5 million for the nine months ended September 30, 2021, compared to \$64.1 million for the nine months ended September 30, 2020, an increase of \$25.4 million, or 40%.

Cost of precision oncology testing revenue was \$78.1 million for the nine months ended September 30, 2021, compared to \$52.7 million for the nine months ended September 30, 2020, an increase of \$25.4 million, or 48%. This increase in cost of precision oncology testing was attributable to an increase in sample volumes and was primarily due to a \$15.1 million increase in material costs, an \$8.0 million increase in production labor and overhead

costs, and a \$3.0 million increase in other costs including costs related to freight and curation of test results for physicians, offset by a \$0.6 million decrease in royalties.

Cost of development services and other was \$11.3 million for the nine months ended September 30, 2021, compared to \$11.4 million for the nine months ended September 30, 2020, a decrease of \$0.1 million, or 1%.

Gross margin for the nine months ended September 30, 2021 was 66% compared to 69% for the nine months ended September 30, 2020. The decrease in gross margin is primarily due to higher average cost per test resulting from the varied product mix of precision oncology testing, partially offset by gross margin improvement of development services and other. Our gross margin may be adversely impacted by the COVID-19 pandemic depending on how long the pandemic lasts and the severity of the situation in coming quarters.

Operating Expenses

Research and development expense

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
Research and development	\$ 190,200	\$ 109,580	\$ 80,620	74 %

Research and development expenses were \$190.2 million for the nine months ended September 30, 2021, compared to \$109.6 million for the nine months ended September 30, 2020, an increase of \$80.6 million, or 74%. This increase in research and development expense was primarily due to an increase of \$37.0 million in personnel-related costs for employees in our research and development group, including a \$5.9 million increase in stock-based compensation, as we increased our headcount to support continued investment in our technology and clinical studies, an increase of \$23.6 million in material costs related to various programs, an increase of \$14.2 million in outside service costs, and an increase of \$10.0 million related to allocated facility and information technology infrastructure costs, offset by a decrease of \$8.5 million relating to in-process research and development (IPR&D) technology expensed in connection with a patent license acquisition that occurred in March 2020.

Sales and marketing expense

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
Sales and marketing	\$ 132,282	\$ 75,225	\$ 57,057	76 %

Selling and marketing expenses were \$132.3 million for the nine months ended September 30, 2021, compared to \$75.2 million for the nine months ended September 30, 2020, an increase of \$57.1 million, or 76%. This increase was primarily due to an increase of \$38.7 million in personnel-related costs, including a \$4.0 million increase in stock-based compensation, associated with the expansion of our commercial organization, an increase of \$8.8 million related to allocated facility and information technology infrastructure costs and an increase of \$7.5 million related to marketing activities.

General and administrative expense

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
General and administrative	\$ 166,366	\$ 123,265	\$ 43,101	35 %

General and administrative expenses were \$166.4 million for the nine months ended September 30, 2021, compared to \$123.3 million for the nine months ended September 30, 2020, an increase of \$43.1 million, or 35%. This increase was primarily due to an increase of \$33.6 million in personnel-related costs, including a \$26.1 million increase in stock-based compensation primarily in connection with the issuance of market-based restricted stock units to our Co-Chief Executive Officers as well as an increase in our headcount, an increase of \$6.0 million in professional

service expenses related to outside legal, accounting, consulting and IT services, and an increase of \$4.0 million related to allocated facilities and information technology infrastructure costs, offset by a decrease of \$1.2 million related to settlement costs in connection with a patent license acquisition that occurred in March 2020.

Interest income

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
Interest income	\$ 3,277	\$ 8,271	\$ (4,994)	(60)%

Interest income was \$3.3 million for the nine months ended September 30, 2021, compared to \$8.3 million for the nine months ended September 30, 2020, a decrease of \$5.0 million, or 60%. This decrease was primarily due to a significant decrease in interest rate as the U.S. Federal Reserve lowered the risk-free interest rate to nearly zero, partially offset by a significant increase in cash, cash equivalents and marketable securities related to the receipt of cash proceeds from our follow-on public offering completed in June 2020 and borrowings on our convertible senior notes issued in November 2020.

Interest expense

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
Interest expense	\$ (1,934)	\$ (30)	\$ (1,904)	*

* Not meaningful

Interest expense was \$1.9 million for the nine months ended September 30, 2021, primarily due to the amortization of debt issuance costs. Interest expense was immaterial for the nine months ended September 30, 2020.

Other income (expense), net

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
Other income (expense), net	\$ (720)	\$ 2,421	\$ (3,141)	*

* Not meaningful

Other income (expense), net included asset management fees of \$0.5 million for the nine months ended September 30, 2021. For the nine months ended September 30, 2020, other income (expense), net included receipt of \$1.8 million received from HHS's relief fund under the CARES Act.

Provision for income taxes

	Nine Months Ended September 30,		Change	
	2021	2020	\$	%
(unaudited)				
(in thousands)				
Provision for income taxes	\$ 289	\$ 116	\$ 173	149 %

Provision for income taxes was immaterial for the nine months ended September 30, 2021, and 2020.

Liquidity and capital resources

We have incurred losses and negative cash flows from operations since our inception, and as of September 30, 2021, we had an accumulated deficit of \$916.9 million. We expect to incur additional operating losses in the near future

and our operating expenses will increase as we continue to invest in clinical trials and develop new products, expand our sales organization, and increase our marketing efforts to drive market adoption of our tests. As demand for our tests are expected to continue to increase from physicians and biopharmaceutical companies, we anticipate that our capital expenditure requirements could also increase if we require additional laboratory capacity.

We have funded our operations to date principally from the sale of stock, convertible debt and through revenue from precision oncology testing and development services and other. As of September 30, 2021, we had cash and cash equivalents of \$832.4 million and marketable securities of \$903.8 million. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to provide liquidity while ensuring capital preservation. Currently, our investments are held in marketable securities consisting of United States treasury securities and non-marketable securities in the form of private equity investments.

Based on our current business plan, we believe our current cash, cash equivalents and marketable securities and anticipated cash flows from operations, will be sufficient to meet our anticipated cash requirements for more than 12 months from the date of this report. We may consider raising additional capital to expand our business, to pursue strategic investments, to take advantage of financing opportunities or for other reasons. As revenue from precision oncology testing and development services and other is expected to grow long-term, we expect our accounts receivable and inventory balances to increase. Any increase in accounts receivable and inventory may not be completely offset by increases in accounts payable and accrued expenses, which could result in greater working capital requirements.

If our available cash, cash equivalents and marketable securities and anticipated cash flows from operations are insufficient to satisfy our liquidity requirements including because of lower demand for our products as a result of lower than currently expected rates of reimbursement from our customers or other risks described in our Form 10-K for the year ended December 31, 2020, we may seek to sell additional common or preferred equity or convertible debt securities, enter into a credit facility or another form of third-party funding or seek other debt financing. The sale of equity and convertible debt securities may result in dilution to our stockholders and, in the case of preferred equity securities or convertible debt, those securities could provide for rights, preferences or privileges senior to those of our common stock. The terms of debt securities issued or borrowings pursuant to a credit agreement could impose significant restrictions on our operations. If we raise funds through collaborations and licensing arrangements, we might be required to relinquish significant rights to our platform technologies or products or grant licenses on terms that are not favorable to us. Additional capital may not be available to us on reasonable terms, or at all.

Cash flows

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended September 30,	
	2021	2020
	(unaudited)	
	(in thousands)	
Net cash used in operating activities	\$ (132,029)	\$ (44,704)
Net cash provided by (used in) investing activities	\$ 203,542	\$ (319,401)
Net cash (used in) provided by financing activities	\$ (70,604)	\$ 363,583

Operating activities

Cash used in operating activities during the nine months ended September 30, 2021, was \$132.0 million, which resulted from a net loss of \$312.5 million, partially offset by non-cash charges of \$171.9 million and net change in our operating assets and liabilities of \$8.6 million. Non-cash charges primarily consisted of \$124.6 million of stock-based compensation, \$17.8 million of non-cash operating lease costs, \$16.2 million of depreciation and amortization, \$9.5 million of amortization of premium on marketable investments, and \$1.9 million of amortization of debt issuance costs. The net change in our operating assets and liabilities was primarily the result of a \$10.6 million increase in accrued compensation due to increased personnel, a \$10.5 million increase in accrued expenses and other liabilities and a \$6.9 million increase in accounts payable, partially offset by a \$7.4 million increase in accounts receivable, net, a \$5.8 million increase in prepaid expenses and other current assets, a \$3.2 million increase in other assets, net, and a \$2.0 million increase in inventory due to higher testing volumes.

Cash used in operating activities during the nine months ended September 30, 2020 was \$44.7 million, which resulted from a net loss of \$153.2 million and net change in our operating assets and liabilities of \$11.7 million,

partially offset by non-cash charges of \$120.2 million. Non-cash charges primarily consisted of \$87.4 million of stock-based compensation, \$11.5 million of depreciation and amortization, \$8.5 million of charge of in-process research and development costs with no alternative future use, \$8.1 million of credit loss adjustment and others, \$3.3 million of non-cash operating lease costs, and \$1.6 million of amortization of premium on investment. The net change in our operating assets and liabilities was primarily the result of a \$12.6 million increase in inventory due to higher testing volumes, a \$7.6 million increase in other assets for long-term portions of payments due from a third-party in relation to the settlement of a patent dispute reached in the three months ended September 30, 2020, a \$4.9 million decrease in deferred revenue, and a \$3.5 million payment of operating lease liabilities net of receipt of tenant improvement allowance, partially offset by a \$11.6 million decrease in accounts receivables, and a \$5.5 million increase in accrued compensation due to increased personnel.

Investing activities

Cash provided by investing activities during the nine months ended September 30, 2021, was \$203.5 million, which resulted primarily from maturities of marketable securities of \$627.1 million, partially offset by purchases of marketable securities of \$334.1 million, purchases of property and equipment of \$50.4 million and purchase of non-marketable equity and other related investments of \$39.1 million.

Cash used in investing activities during the nine months ended September 30, 2020, was \$319.4 million, which resulted primarily from purchases of marketable securities of \$580.2 million, purchases of property and equipment of \$28.9 million and purchases of intangible assets and capitalized license obligations of \$17.9 million, partially offset by maturities of marketable securities of \$307.5 million.

Financing activities

Cash used in financing activities during the nine months ended September 30, 2021, was \$70.6 million, which was primarily due to taxes paid related to net share settlement of restricted stock units of \$82.2 million, partially offset by proceeds from exercise of stock options of \$7.1 million and proceeds from issuances of common stock under employee stock purchase plan of \$5.4 million.

Cash provided by financing activities during the nine months ended September 30, 2020, was \$363.6 million, which was primarily due to proceeds from a follow-on offering of our common stock, net of underwriting discounts and commissions and offering expenses payable by us, of \$354.6 million, proceeds from exercise of stock options of \$7.4 million, and proceeds from issuances of common stock under employee stock purchase plan of \$4.0 million, partially offset by taxes paid related to net share settlement of restricted stock units of \$2.2 million.

Contractual obligations and commitments

Except as set forth in Note 10, *Commitments and Contingencies*, of the notes to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, there have been no material changes outside the ordinary course of business to our contractual obligations and commitments as described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” in our Annual Report on Form 10-K for the year ended December 31, 2020.

Off-balance sheet arrangements

As of September 30, 2021, we have not had any off-balance sheet arrangements as defined in the rules and regulations of the SEC.

Critical accounting policies and estimates

We have prepared our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our preparation of these consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, expenses and related disclosures at the date of the consolidated financial statements, as well as revenue and expenses recorded during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from these estimates under different assumptions or conditions.

Our significant accounting policies are described in more detail in Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q and in Item 7, “*Management's Discussion and Analysis of Financial Condition and Results of Operations*”, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. During the three and nine months ended September 30, 2021, there were no material changes to our critical accounting policies from those discussed previously.

Recent accounting pronouncements

See Note 2, *Summary of Significant Accounting Policies*, to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates.

Interest rate risk

We are exposed to market risk for changes in interest rates related primarily to our cash and cash equivalents, marketable securities and our indebtedness. As of September 30, 2021, we had cash and cash equivalents of \$832.4 million held primarily in cash deposits and money market funds. Our marketable securities are held in U.S. government debt securities. As of September 30, 2021, we had short-term marketable securities of \$653.6 million and long-term marketable securities of \$250.2 million. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. As of September 30, 2021, a hypothetical 100 basis point increase in interest rates would have resulted in an approximate \$6.1 million decline of the fair value of our available-for-sale securities and a hypothetical 100 basis point decrease in interest rates would have resulted in an approximate \$1.1 million increase of the fair value of our available-for-sale securities. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur.

Foreign currency risk

The majority of our revenue is generated in the United States. Through September 30, 2021, we have generated an insignificant amount of revenues denominated in foreign currencies. As we expand our presence in the international market, our results of operations and cash flows are expected to increasingly be subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. As of September 30, 2021, the effect of a hypothetical 10% change in foreign currency exchange rates would not be material to our financial condition or results of operations. To date, we have not entered into any hedging arrangements with respect to foreign currency risk. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our Co-Chief Executive Officers, or Co-CEOs, and our Chief Financial Officer, or CFO with the participation of other members of our management, have evaluated the effectiveness of our “disclosure controls and procedures” (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2021, and our Co-CEOs and our CFO have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures as required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

Changes in internal control

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that a number of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the COVID-19 situation on our internal controls to minimize the impact on their design and operating effectiveness.

Limitations on effectiveness of controls and procedures

Our management, including our Co-CEOs and our CFO, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The information under the caption “*Commitments and Contingencies – Legal Proceedings*” in Note 10 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, concerning certain legal proceedings in which we are involved, is hereby incorporated by reference. The resolution of any such legal proceeding is subject to inherent uncertainty and could have a material adverse effect on our financial condition, cash flows or results of operations.

Item 1A. Risk Factors

Our business, financial condition and operating results are affected by a number of factors, whether currently known or unknown, including risks specific to us or the healthcare industry as well as risks that affect businesses in general. In addition to the information set forth in this Quarterly Report on Form 10-Q, you should consider carefully the factors discussed in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed with the SEC on February 25, 2021. The risks and uncertainties disclosed in such Annual Report and in this Quarterly Report could materially adversely affect our business, financial condition, cash flows or results of operations and thus our stock price. During the first quarter of fiscal 2021, there were no material changes to our previously disclosed risk factors. Besides risk factors disclosed in the Annual Report and this Quarterly Report, additional risks and uncertainties not currently known or we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

These risk factors may be important to understanding other statements in this Quarterly Report and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes in Part I, Item 1, “*Financial Statements*” and Part I, Item 2, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” of this Quarterly Report. Because of such risk factors, as well as other factors affecting our financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

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

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

Item 6. Exhibits.

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed/Furnished Herewith
3.1	Amended and Restated Certificate of Incorporation	8-K	001-38683	3.1	10/9/2018	
3.2	Amended and Restated Bylaws	8-K	001-38683	3.2	10/9/2018	
31.1	Certification of the Co-Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2	Certification of the Co-Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.3	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Certification of the Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
32.2	Certification of the Co-Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
32.3	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)					*

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

GUARDANT HEALTH, INC.

Dated:	November 4, 2021	By:	<u>/s/ Helmy Eltoukhy</u>
		Name:	Helmy Eltoukhy
		Title:	Co-Chief Executive Officer (Principal Executive Officer)
Dated:	November 4, 2021	By:	<u>/s/ AmirAli Talasaz</u>
		Name:	AmirAli Talasaz
		Title:	Co-Chief Executive Officer (Principal Executive Officer)
Dated:	November 4, 2021	By:	<u>/s/ Michael Bell</u>
		Name:	Michael Bell
		Title:	Chief Financial Officer (Principal Accounting Officer and Principal Financial Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Helmy Eltoukhy, certify that:

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

Date: November 4, 2021

/s/ Helmy Eltoukhy
Helmy Eltoukhy
Co-Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, AmirAli Talasaz, certify that:

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

Date: November 4, 2021

/s/ AmirAli Talasaz
AmirAli Talasaz
Co-Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Bell, certify that:

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

Date: November 4, 2021

/s/ Michael Bell

Michael Bell
Chief Financial Officer
(Principal Accounting Officer and Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Guardant Health, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 4, 2021

/s/ Helmy Eltoukhy
Helmy Eltoukhy
Co-Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Guardant Health, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 4, 2021

/s/ AmirAli Talasaz
AmirAli Talasaz
Co-Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Guardant Health, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 4, 2021

/s/ Michael Bell

Michael Bell

Chief Financial Officer

(Principal Accounting Officer and Principal Financial Officer)

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.