

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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 March 31, 2019

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: 0-10961

QUIDEL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-2573850

(I.R.S. Employer
Identification No.)

12544 High Bluff Drive, Suite 200, San Diego, California 92130

(Address of principal executive offices, including zip code)

(858) 552-1100

(Registrant's telephone number, including area code)

Not Applicable

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	QDEL	NASDAQ Global Market

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

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

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

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

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

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

As of May 3, 2019, 39,817,679 shares of the registrant's common stock were outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

QUIDEL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value; unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,938	\$ 43,695
Accounts receivable, net	69,234	58,677
Inventories	66,647	67,379
Prepaid expenses and other current assets	18,823	23,646
Total current assets	211,642	193,397
Property, plant and equipment, net	75,356	73,901
Right-of-use assets	85,907	—
Goodwill	337,019	337,021
Intangible assets, net	168,120	175,029
Deferred tax asset—non-current	22,102	22,192
Other non-current assets	5,709	4,831
Total assets	\$ 905,855	\$ 806,371
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 26,827	\$ 25,171
Accrued payroll and related expenses	10,969	19,210
Current portion of operating lease liabilities	5,385	—
Current portion of contingent consideration	3,971	3,983
Current portion of deferred consideration	44,000	44,000
Current portion of Convertible Senior Notes	54,880	54,379
Other current liabilities	13,521	12,992
Total current liabilities	159,553	159,735
Operating lease liabilities	83,818	—
Revolving Credit Facility	33,188	53,188
Deferred consideration	145,501	143,158
Contingent consideration	15,129	15,129
Other non-current liabilities	7,968	9,577
Commitments and contingencies (see Note 8)		
Stockholders' equity:		
Preferred stock, \$.001 par value per share; 5,000 shares authorized; none issued or outstanding at March 31, 2019 and December 31, 2018	—	—
Common stock, \$.001 par value per share; 97,500 shares authorized; 39,806 and 39,386 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	40	39
Additional paid-in capital	374,148	363,921
Accumulated other comprehensive loss	(97)	(139)
Retained earnings	86,607	61,763
Total stockholders' equity	460,698	425,584
Total liabilities and stockholders' equity	\$ 905,855	\$ 806,371

See accompanying notes.

QUIDEL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data; unaudited)

	Three months ended March 31,	
	2019	2018
Total revenues	\$ 147,968	\$ 169,143
Cost of sales	57,041	62,872
Gross profit	90,927	106,271
Research and development	13,930	12,621
Sales and marketing	29,589	28,558
General and administrative	13,431	10,532
Acquisition and integration costs	2,824	3,467
Total operating expenses	59,774	55,178
Operating income	31,153	51,093
Other expense, net:		
Interest expense, net	(4,582)	(7,850)
Loss on extinguishment of debt	—	(4,567)
Total other expense, net	(4,582)	(12,417)
Income before income taxes	26,571	38,676
Provision for income taxes	1,727	4,718
Net income	\$ 24,844	\$ 33,958
Basic earnings per share	\$ 0.63	\$ 0.96
Diluted earnings per share	\$ 0.60	\$ 0.86
Shares used in basic per share calculation	39,704	35,236
Shares used in diluted per share calculation	42,907	41,948

See accompanying notes.

QUIDEL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands; unaudited)

	Three months ended March 31,	
	2019	2018
Net income	\$ 24,844	\$ 33,958
Changes in cumulative translation adjustment, net of tax	(248)	20
Change in fair value of cash flow hedges, net of tax	290	—
Comprehensive income	<u>\$ 24,886</u>	<u>\$ 33,978</u>

See accompanying notes.

QUIDEL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands; unaudited)

	Common Stock			Accumulated other comprehensive (loss) income	Retained earnings	Total stockholders' equity
	Shares	Par	Additional paid-in capital			
Balance at December 31, 2018	39,386	\$ 39	\$ 363,921	\$ (139)	\$ 61,763	\$ 425,584
Issuance of common stock under equity compensation plans	444	1	8,816	—	—	8,817
Stock-based compensation expense	—	—	2,887	—	—	2,887
Repurchases of common stock	(24)	—	(1,476)	—	—	(1,476)
Changes in cumulative translation adjustment, net of tax	—	—	—	(248)	—	(248)
Change in fair value of cash flow hedges, net of tax	—	—	—	290	—	290
Net income	—	—	—	—	24,844	24,844
Balance at March 31, 2019	39,806	\$ 40	\$ 374,148	\$ (97)	\$ 86,607	\$ 460,698

	Common Stock			Accumulated other comprehensive income	Retained earnings (accumulated deficit)	Total stockholders' equity
	Shares	Par	Additional paid-in capital			
Balance at December 31, 2017	34,540	\$ 35	\$ 239,489	\$ —	\$ (12,420)	\$ 227,104
Issuance of common stock under equity compensation plans	516	—	5,652	—	—	5,652
Stock-based compensation expense	—	—	2,936	—	—	2,936
Issuance of shares in exchange for Convertible Senior Notes	2,428	2	118,073	—	—	118,075
Reduction for equity component of Convertible Senior Notes exchanged	—	—	(53,867)	—	—	(53,867)
Repurchases of common stock	(73)	—	(3,232)	—	—	(3,232)
Changes in cumulative translation adjustment, net of tax	—	—	—	20	—	20
Net income	—	—	—	—	33,958	33,958
Balance at March 31, 2018	37,411	\$ 37	\$ 309,051	\$ 20	\$ 21,538	\$ 330,646

QUIDEL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands; unaudited)

	Three months ended March 31,	
	2019	2018
OPERATING ACTIVITIES:		
Net income	\$ 24,844	\$ 33,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other	11,971	12,075
Stock-based compensation expense	3,588	2,936
Amortization of debt discount and deferred issuance costs	602	1,671
Accretion of interest on deferred consideration	2,343	2,793
Amortization of inventory step-up to fair value	—	3,650
Loss on extinguishment of debt	—	4,567
Changes in assets and liabilities:		
Accounts receivable	(10,682)	(25,205)
Inventories	682	5,471
Prepaid expenses and other current and non-current assets	3,995	(1,842)
Accounts payable	1,802	(595)
Accrued payroll and related expenses	(6,969)	(5,988)
Other current and non-current liabilities	721	2,323
Net cash provided by operating activities:	32,897	35,814
INVESTING ACTIVITIES:		
Acquisitions of property and equipment	(4,993)	(4,949)
Proceeds from sale of Summers Ridge Property	—	146,644
Net cash (used for) provided by investing activities:	(4,993)	141,695
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	6,847	5,652
Payments on Revolving Credit Facility	(20,000)	(10,000)
Payments on finance lease obligation	(38)	(29)
Repurchases of common stock	(1,476)	(3,232)
Payments of acquisition contingent consideration	(12)	(1,017)
Payments of Term Loan	—	(101,813)
Transaction costs related to debt exchange	—	(1,357)
Net cash used for financing activities:	(14,679)	(111,796)
Effect of exchange rates on cash	18	13
Net increase in cash and cash equivalents	13,243	65,726
Cash and cash equivalents, beginning of period	43,695	36,086
Cash and cash equivalents, end of period	\$ 56,938	\$ 101,812
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Purchase of property and equipment by incurring current liabilities	\$ 1,728	\$ 2,067
NON-CASH FINANCING ACTIVITIES:		
Reduction of other current liabilities upon issuance of restricted share units	\$ 1,970	\$ —
Extinguishment of Convertible Senior Notes through issuance of common stock	\$ —	\$ 118,075

See accompanying notes.

Quidel Corporation
Notes to Consolidated Financial Statements
(Unaudited)

Note 1 . Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Quidel Corporation and its subsidiaries (the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included.

The information at March 31, 2019 , and for the three months ended March 31, 2019 and 2018 , is unaudited. For further information, refer to the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2018 included in the Company’s 2018 Annual Report on Form 10-K. Operating results for any quarter are historically seasonal in nature and are not necessarily indicative of the results expected for the full year.

For 2019 and 2018 , the Company’s fiscal year will end or has ended on December 29, 2019 and December 30, 2018 , respectively. For 2019 and 2018 , the Company’s first quarter ended on March 31, 2019 and April 1, 2018 , respectively. For ease of reference, the calendar quarter end dates are used herein. The three - month periods ended March 31, 2019 and 2018 each included 13 weeks.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Accounting Standards Update (“ASU”) 2016-02 and ASU 2018-11 (collectively, “ASC 842”) requires a lessee to recognize a lease liability for the obligation to make lease payments and a ROU asset representing the right to use the underlying asset for the lease term on the balance sheet. Deferred rent, recorded in other current liabilities and other non-current liabilities, is derecognized. The Company adopted ASC 842 as of January 1, 2019 using the alternative transition method to apply the guidance. The Company elected the package of practical expedients which, among other things, allows the Company to carry forward its historical lease classifications.

The following table presents the effect of the change in accounting principle on the Company’s Consolidated Balance Sheets as of January 1, 2019:

Consolidated Balance Sheet (in thousands)	January 1, 2019	Effect of Change in Accounting Principle	After change in Accounting Principle
ASSETS			
Operating lease right-of-use asset	\$ —	\$ 87,086	\$ 87,086
Total assets	<u>\$ 806,371</u>	<u>\$ 87,086</u>	<u>\$ 893,457</u>
LIABILITIES AND STOCKHOLDERS’ EQUITY			
Current portion of operating lease liability	\$ —	\$ 5,290	\$ 5,290
Other current liabilities	12,992	(448)	12,544
Total current liabilities	159,735	4,842	164,577
Operating lease liability	—	84,866	84,866
Other non-current liabilities	9,577	(2,622)	6,955
Total liabilities and stockholders’ equity	<u>\$ 806,371</u>	<u>\$ 87,086</u>	<u>\$ 893,457</u>

In January 2017, the Financial Accounting Standards Board (“FASB”) issued guidance codified in ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). Under this new guidance, an entity will no longer determine goodwill impairment by calculating the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Instead, an entity will compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. The Company adopted the guidance during the three months ended March 31, 2019 with no impact to the Company’s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. The standard is effective for the Company beginning in the first quarter of 2020, with early adoption permitted. We are currently evaluating the expected impact of ASU 2016-13 on our consolidated financial statements.

Significant Accounting Policies

During the three months ended March 31, 2019, there have been no changes to our significant accounting policies as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 except as described below and in Note 10. Derivatives and Hedging.

Leases - Lease liabilities represent the obligation to make lease payments and right-of-use (“ROU”) assets represent the right to use the underlying asset during the lease term. Lease liabilities and ROU assets are recognized at the commencement date of the lease based on the present value of lease payments over the lease term at the commencement date. When the implicit rate is unknown, an incremental borrowing rate based on the information available at the commencement date is used in determining the present value of the lease payments. Options to extend or terminate the lease are included in the determination of the lease term when it is reasonably certain that the Company will exercise such options.

For certain classes of assets, the Company accounts for lease and non-lease components as a single lease component. Variable lease payments, including those related to changes in the consumer price index, are recognized in the period in which the obligation for those payments are incurred and are not included in the measurement of the ROU assets or lease liabilities. Short-term leases are excluded from the calculation of the ROU assets and lease liabilities.

Operating leases are included in operating lease ROU assets, current portion of operating lease liabilities and operating lease liabilities in the Consolidated Balance Sheet. Finance leases are included in property and equipment, other current liabilities and other non-current liabilities.

Note 2 . Computation of Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted-average number of common shares outstanding, including restricted stock units (“RSUs”) vested during the period. Diluted EPS is computed based on the sum of the weighted average number of common shares and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of shares issuable from stock options, unvested RSUs and the 3.25% Convertible Senior Notes due 2020 (“Convertible Senior Notes”). Potentially dilutive common shares from outstanding stock options and unvested RSUs are determined using the average share price for each period under the treasury stock method. Potentially dilutive shares from the Convertible Senior Notes are determined using the if-converted method. Under the provisions of the if-converted method, the Convertible Senior Notes are assumed to be converted and included in the denominator of the EPS calculation and the interest expense, net of tax, recorded in connection with the Convertible Senior Notes is added back to net income.

The Convertible Senior Notes have a dilutive impact when the average market price of the Company’s common stock exceeds the applicable conversion price of the notes. The Senior Convertible Notes became convertible on March 31, 2018 and remained convertible through March 31, 2019.

The following table reconciles net income and the weighted-average shares used in computing basic and diluted earnings per share in the respective periods (in thousands):

	Three months ended March 31,	
	2019	2018
Numerator:		
Net income used for basic earnings per share	\$ 24,844	\$ 33,958
Interest expense on Convertible Senior Notes, net of tax	791	2,144
Net income used for diluted earnings per share, if-converted method	\$ 25,635	\$ 36,102
Basic weighted-average common shares outstanding	39,704	35,236
Potentially dilutive shares issuable from Convertible Senior Notes, if-converted	1,825	4,957
Potentially dilutive shares issuable from stock options and unvested RSUs	1,378	1,755
Diluted weighted-average common shares outstanding, if-converted	42,907	41,948
Potentially dilutive shares excluded from calculation due to anti-dilutive effect	149	193

Potentially dilutive shares excluded from the calculation above represent stock options when the combined exercise price and unrecognized stock-based compensation are greater than the average market price for the Company's common stock because their effect is anti-dilutive.

Note 3 . Balance Sheet Account Details

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value. Inventories consisted of the following at March 31, 2019 and December 31, 2018 , respectively (in thousands):

	March 31, 2019	December 31, 2018
Raw materials	\$ 24,783	\$ 24,292
Work-in-process (materials, labor and overhead)	20,860	21,280
Finished goods (materials, labor and overhead)	21,004	21,807
Total inventories	\$ 66,647	\$ 67,379

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Receivables under transition service agreements	\$ 9,192	\$ 15,507
Income taxes receivable	2,703	2,703
Prepaid expenses	5,375	4,508
Other	1,553	928
Total prepaid expenses and other current assets	\$ 18,823	\$ 23,646

Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	March 31, 2019	December 31, 2018
Customer incentives	\$ 5,778	\$ 7,516
Accrued interest	690	347
Other	7,053	5,129
Total other current liabilities	<u>\$ 13,521</u>	<u>\$ 12,992</u>

Note 4 . Income Taxes

The Company calculates its interim income tax provision in accordance with Accounting Standards Codification (“ASC”) 270, *Interim Reporting*, and ASC 740, *Accounting for Income Taxes* (together, “ASC 740”). At the end of each interim period, the Company estimates its annual effective tax rate and applies that rate to its ordinary quarterly earnings to calculate the tax related to ordinary income. The tax effects for other items that are excluded from ordinary income are discretely calculated and recognized in the period in which they occur.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted into legislation, which includes a broad range of provisions affecting businesses. The Tax Act significantly revised how companies compute their U.S. corporate tax liability by, among other provisions, reducing the corporate tax rate from 35% to 21% for tax years beginning after December 31, 2017, implementing a territorial tax system, and requiring a mandatory one-time tax on U.S.-owned undistributed foreign earnings and profits known as the transition tax.

The Company recognized income tax expense of \$1.7 million and \$4.7 million for the three months ended March 31, 2019 and 2018, respectively. The Company’s 6% effective tax rate for the three months ended March 31, 2019 differed from the federal statutory rate of 21% due to the discrete impact of excess tax deductions from stock-based compensation and the benefit from corporate deductions attributable to Foreign Derived Intangible Income (“FDII”). The Company’s 12% effective tax rate for the three months ended March 31, 2018 differed from the federal statutory rate of 21% due to the projected impact to the Company’s valuation allowance from utilization of deferred tax assets shielding its tax liability, the tax benefit recorded for excess tax benefits of stock-based compensation, and the benefit from corporate deduction attributable to FDII.

The Company is subject to periodic audits by domestic and foreign tax authorities. Due to the carryforward of unutilized credit carryovers, the Company’s federal tax years from 2009 and forward are subject to examination by the U.S. authorities. The Company’s state and foreign tax years for 2001 and forward are subject to examination by applicable tax authorities. The Company believes that it has appropriate support for the income tax positions taken on its tax returns and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors, including past experience and interpretations of tax laws applied to the facts of each matter.

Note 5 . Debt

Convertible Senior Notes

In December 2014, the Company issued \$172.5 million aggregate principal amount of its 3.25% Convertible Senior Notes. Debt issuance costs of approximately \$5.1 million were primarily comprised of underwriters fees, legal, accounting and other professional fees, of which \$4.2 million were recorded as a reduction to long-term debt and are being amortized using the effective interest method to interest expense over the six -year term of the Convertible Senior Notes. The remaining \$0.9 million of debt issuance costs were allocated as a component of equity in additional paid-in capital. The implied interest rate of the Convertible Senior Notes was 6.9% , assuming no conversion option. The Convertible Senior Notes mature on December 15, 2020.

The Convertible Senior Notes are convertible into cash, shares of common stock, or a combination of cash and shares of common stock based on an initial conversion rate, subject to adjustment, of 31.1891 shares per \$1,000 principal amount of the Convertible Senior Notes (which represents an initial conversion price of approximately \$32.06 per share). The conversion will occur in the following circumstances and to the following extent: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2015, if the last reported sales price of the Company’s common stock, for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on the last trading day of the

calendar quarter immediately preceding the calendar quarter in which the conversion occurs, is more than 130% of the conversion price of the notes in effect on each applicable trading day; (2) during the five consecutive business day period following any five consecutive trading day period in which the trading price per \$1,000 principal amount of the Convertible Senior Notes for each such trading day was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such day; or (3) upon the occurrence of specified events described in the indenture for the Convertible Senior Notes. On or after September 15, 2020 until the close of business on the second scheduled trading day immediately preceding the stated maturity date, holders may surrender their notes for conversion at any time, regardless of the foregoing circumstances. If a fundamental change, as defined in the indenture for the Convertible Senior Notes, such as an acquisition, merger or liquidation of the Company, occurs prior to the maturity date, subject to certain limitations, holders of the Convertible Senior Notes may require the Company to repurchase all or a portion of their Convertible Senior Notes for cash at a repurchase price equal to 100% of the principal amount of the Convertible Senior Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the repurchase date.

During the first quarter of 2019, the last reported sales price of the Company's common stock was greater than 130% of the Convertible Senior Notes conversion price for 20 or more of the 30 consecutive trading days preceding the quarter-end. Consequently, the Convertible Senior Notes were convertible as of March 31, 2019. If the Convertible Senior Notes were converted as of March 31, 2019, the if-converted amount would exceed the principal by \$1.7 million. The Convertible Senior Notes may be settled at the Company's option in cash or a combination of cash and shares of common stock. Because the settlement could be in cash, the Convertible Senior Notes have been classified as short-term debt as of March 31, 2019.

The Company pays 3.25% interest per annum on the principal amount of the Convertible Senior Notes semi-annually in arrears in cash on June 15 and December 15 of each year. During the three months ended March 31, 2019, the Company recorded total interest expense of \$1.0 million related to the Convertible Senior Notes, of which \$0.5 million related to the amortization of the debt discount and issuance costs and \$0.5 million related to the coupon due semi-annually. During the three months ended March 31, 2018, the Company recorded total interest expense of \$2.6 million related to the Convertible Senior Notes of which \$1.3 million related to the amortization of the debt discount and issuance costs and \$1.3 million related to the coupon due semi-annually.

The following table summarizes information about the equity and liability components of the Convertible Senior Notes (dollars in thousands). The fair values of the respective notes outstanding were measured based on quoted market price and is a Level 2 measurement.

	March 31, 2019	December 31, 2018
Principal amount outstanding	\$ 58,503	\$ 58,503
Unamortized discount of liability component	(3,195)	(3,637)
Unamortized debt issuance costs	(428)	(487)
Net carrying amount of liability component	54,880	54,379
Less: current portion	(54,880)	(54,379)
Long-term debt	\$ —	\$ —
Carrying value of equity component, net of issuance costs	\$ 10,092	\$ 10,092
Fair value of outstanding Convertible Senior Notes	\$ 119,767	\$ 85,999
Remaining amortization period of discount on the liability component	1.8 years	2.0 years

Credit Agreement

On August 31, 2018, the Company entered into an Amended and Restated Credit Agreement (the "Credit Agreement") which provides the Company with a \$175.0 million Revolving Credit Facility. The balance outstanding under the Revolving Credit Facility as of March 31, 2019 was \$33.2 million and is due upon maturity on August 31, 2023.

The Credit Agreement matures on August 31, 2023. Loans will bear interest at a rate equal to (i) the London Interbank Offered Rate ("LIBOR") plus the "applicable rate" or (ii) the "base rate" (defined as the highest of (a) the Bank of America prime rate, (b) the Federal Funds rate plus one-half of one percent and (c) LIBOR plus one percent) plus the "applicable rate." The initial applicable rate was 1.00% per annum for base rate loans and 2.00% per annum for LIBOR rate loans, and thereafter will be determined in accordance with a pricing grid based on the Company's Consolidated Leverage Ratio (as defined in the Credit Agreement) ranging from 1.75% to 2.50% per annum for LIBOR rate loans and from 0.75% to 1.50% per annum for

base rate loans. In addition, the Company pays a commitment fee on the unused portion of the Credit Agreement based on the Company's Consolidated Leverage Ratio ranging from 0.15% to 0.30% per annum.

The Credit Agreement is guaranteed by certain material domestic subsidiaries of the Company (the "Guarantors") and is secured by liens on substantially all of the assets of the Company and the Guarantors, excluding real property and certain other types of excluded assets, and contains affirmative and negative covenants that are customary for credit agreements of this nature. The negative covenants include, among other things, limitations on asset sales, mergers, indebtedness, liens, dividends and other distributions, investments and transactions with affiliates. The Credit Agreement contains two financial covenants: (i) maximum Consolidated Leverage Ratio (as defined in the Credit Agreement) as of the last day of each fiscal quarter of 3.50 to 1.00, which ratio may be increased to 4.50 to 1.00 in case of certain qualifying acquisitions; and (ii) a minimum Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of 1.25 to 1.00 as of the end of any fiscal quarter for the most recently completed four fiscal quarters. The Company was in compliance with all financial covenants as of March 31, 2019.

Interest expense recognized under the Credit Agreement for the three months ended March 31, 2019 and 2018 totaled \$0.5 million and \$2.1 million, respectively, for the stated interest and commitment fee. Amortization of debt issuance costs associated with the Credit Agreement was \$0.1 million and \$0.3 million, respectively for the three months ended March 31, 2019 and 2018 and was recorded to interest expense in the Company's Consolidated Statements of Income.

Note 6 . Stockholders' Equity

Issuances of Common Stock

A summary of the status of stock option activity for the three months ended March 31, 2019 is as follows (in thousands, except price data):

	Number of Shares	Weighted- average exercise price per share
Outstanding at December 31, 2018	1,877	\$ 21.53
Granted	168	59.18
Exercised	(355)	17.77
Cancelled	(2)	37.37
Outstanding at March 31, 2019	1,688	\$ 26.06

A summary of the status of restricted stock unit activity for the three months ended March 31, 2019 is as follows (in thousands, except price data):

	Shares	Weighted-average grant date fair value
Non-vested at December 31, 2018	676	\$ 30.75
Granted	220	59.45
Vested	(68)	21.45
Forfeited	(2)	42.51
Non-vested at March 31, 2019	826	\$ 39.11

During the three months ended March 31, 2019, the Company issued 21,600 shares of common stock in connection with the Company's employee stock purchase plan (the "ESPP").

Stock-Based Compensation

The expense related to the Company's stock-based compensation plans included in the accompanying Consolidated Statements of Income was as follows (in thousands):

	Three months ended March 31,	
	2019	2018
Cost of sales	\$ 280	\$ 231
Research and development	565	592
Sales and marketing	1,119	796
General and administrative	1,624	1,317
Total stock-based compensation expense	<u>\$ 3,588</u>	<u>\$ 2,936</u>

As of March 31, 2019 , total unrecognized compensation expense was \$30.3 million , which is expected to be recognized over a weighted-average period of approximately 2.4 years .

The estimated fair value of each stock option was determined on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions for the option grants.

	Three months ended March 31,	
	2019	2018
Risk-free interest rate	2.51%	2.49%
Expected option life (in years)	5.68	6.29
Volatility rate	39%	36%
Dividend rate	—%	—%
Weighted-average grant date fair value	<u>\$ 23.67</u>	<u>\$ 18.76</u>

The fair value of RSUs is determined based on the closing market price of the Company's common stock on the grant date. The weighted-average fair value of RSUs granted during the three months ended March 31, 2019 and 2018 was \$59.45 and \$46.48 , respectively.

Compensation expense capitalized to inventory and compensation expense related to the Company's ESPP were not material for the three months ended March 31, 2019 or 2018 .

Note 7 . Industry and Geographic Information

The Company operates in one reportable segment. Sales to customers outside the U.S. represented \$41.5 million (28%) and \$41.9 million (25%) of total revenue for the three months ended March 31, 2019 and 2018 , respectively. As of March 31, 2019 and December 31, 2018 , accounts receivable due from foreign customers were \$23.1 million and \$23.4 million , respectively.

The Company had sales to individual customers in excess of 10% of total revenues, as follows:

Customer:	Three months ended March 31,	
	2019	2018
A	17%	16%
B	17%	20%
C	13%	13%
	<u>47%</u>	<u>49%</u>

As of March 31, 2019 and December 31, 2018 , accounts receivable from customers with balances due in excess of 10% of total accounts receivable totaled \$37.6 million and \$33.3 million , respectively.

Consolidated net revenues by product category for the three months ended March 31, 2019 and 2018 are as follows (in thousands):

	Three months ended March 31,	
	2019	2018
Rapid Immunoassay	\$ 62,494	\$ 80,685
Cardiac Immunoassay	65,872	68,444
Specialized Diagnostic Solutions	13,854	14,871
Molecular Diagnostic Solutions	5,748	5,143
Total revenues	<u>\$ 147,968</u>	<u>\$ 169,143</u>

Note 8 . Commitments and Contingencies

Leases

We lease administrative, research and development, sales and marketing and manufacturing facilities and certain equipment under various non-cancelable lease agreements. Facility leases generally provide for periodic rent increases, and may contain clauses for rent escalation, renewal options or early termination.

The components of lease expense and supplemental cash flow information related to leases were as follows (in thousands):

	Three months ended March 31, 2019	
Finance lease ROU asset amortization	\$	63
Finance lease interest expense		209
Total finance lease costs		<u>272</u>
Operating lease costs		2,505
Total lease costs	\$	<u>2,777</u>
Cash paid for amounts included in the measurement of operating lease liabilities		
Operating cash flows from operating leases	\$	2,280
Operating cash flows from finance leases	\$	209
Right-of-use assets obtained in exchange for new lease liabilities		
Operating leases	\$	328
Finance leases	\$	1,326

Commitments for minimum rentals under non-cancelable leases as of March 31, 2019 are as follows (dollars in thousands):

Years ending December 31,	Operating	Finance
2019	\$ 6,918	\$ 989
2020	9,340	1,262
2021	9,576	1,270
2022	8,568	1,281
2023	8,184	1,291
Thereafter	76,566	3,129
Total lease payments	119,152	9,222
Less: imputed interest	(29,949)	(4,076)
Total	\$ 89,203	\$ 5,146
Less: current portion of operating lease liability	(5,385)	(478)
Non-current portion of operating lease liability	\$ 83,818	\$ 4,668
Weighted average remaining lease term (in years)	12.7	6.3
Weighted average discount rate	4%	18%

Summers Ridge Lease — The Company leases two of the four buildings that are located on the Summers Ridge Property in San Diego, California with an initial term of 15 years beginning January 2018. Such lease includes options to extend the lease for two additional 5 -year terms upon satisfaction of certain conditions, which have not been included in the determination of the lease term. The lease is subject to certain must-take provisions related to the remaining two additional buildings that may create significant rights and obligations. The lease for one such building is expected to commence in the fourth quarter of 2019 and has minimum lease payments of \$18.4 million during its lease term. The lease for the remaining building is subject to the expiration of the lease with the current tenant of such building, for which the date is not yet known.

McKellar Court Lease — In 1999, the Company completed a sale and leaseback transaction of its San Diego facility at McKellar Court to a partnership for which the Company is a 25% limited partner. The partnership is deemed to be a variable interest entity (VIE). The Company is not, however, the primary beneficiary of the VIE as it does not absorb the majority of the partnership’s expected losses or receive a majority of the partnership’s residual returns. The McKellar Court lease ends in December 2020 and contains options to extend the lease for three additional five -year periods, of which one five -year period is included in the determination of the lease term.

Litigation and Other Legal Proceedings

In Beckman Coulter Inc. v. Quidel Corporation, which was filed in the Superior Court for the County of San Diego, California, on November 27, 2017, Beckman Coulter (“Beckman”) alleges that a provision of an agreement between Quidel and Beckman violates state antitrust laws. Our acquisition of the B-type Natriuretic Peptide assay business (“BNP Business”) consisted of assets and liabilities relating to a contractual arrangement with Beckman (the “Beckman Agreement”) for the supply of antibodies and other inputs related to, and distribution of, the Triage® BNP Test for the Beckman Coulter Access Family of Immunoassay Systems. The Beckman Agreement further provides that Beckman, for a specified period, cannot research, develop, manufacture or sell an assay for use in the diagnosis of cardiac diseases that measures or detects the presence or absence of BNP or NT-pro-BNP (a related biomarker) (the “Exclusivity Provision”). In the lawsuit, Beckman asserts that this provision violates certain state antitrust laws and is unenforceable. Beckman contends that it has suffered damages due to this provision and seeks a declaration that this provision is void.

On December 7, 2018, the trial court granted a motion by Beckman for summary adjudication, holding that the Exclusivity Provision is void under California law (the “December 7 Order”). On December 18, 2018, the trial court stayed the effect of the December 7 Order pending a decision on a writ petition Quidel intended to file with the Court of Appeal. Quidel filed its writ petition on January 18, 2019, asking the Court of Appeal to review and reverse the December 7 Order. On February 7, 2019, the trial court stayed all the remaining litigation pending the outcome of the writ petition and vacated all deadlines in the case.

On March 14, 2019, the Court of Appeal issued an order to show cause why the relief sought in Quidel’s petition should not be granted. The Court also stayed the December 7 Order pending a further order from the Court of Appeal. Oral argument has not been scheduled in the matter but is anticipated to take place in the summer of 2019. The Court of Appeal will likely

issue a written decision on the writ petition within 90 days of oral argument.

Quidel denies that the Exclusivity Provision is unlawful, denies any liability with respect to this matter, and intends to vigorously defend itself. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from this matter including: (1) we are vigorously defending ourselves and believe that we have a number of meritorious legal defenses; (2) there are unresolved questions of law and fact that could be important to the ultimate resolution of this matter, some of which are before the Court of Appeal on Quidel's writ petition; and (3) discovery is ongoing. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

From time to time, the Company is involved in other litigation and proceedings, including matters related to product liability claims, commercial disputes and intellectual property claims, as well as regulatory, employment, and other claims related to our business. The Company accrues for legal claims when, and to the extent that, amounts associated with the claims become probable and are reasonably estimable. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims. For those matters as to which we are not able to estimate a possible loss or range of loss, we are not able to determine whether the loss will have a material adverse effect on our business, financial condition or results of operations or liquidity. No accrual has been recorded as of March 31, 2019 and December 31, 2018 related to such matters as they are not probable and/or reasonably estimable.

Management believes that all such current legal actions, in the aggregate, will not have a material adverse effect on the Company. However, the resolution of, or increase in any accruals for, one or more matters may have a material adverse effect on the Company's results of operations and cash flows.

The Company also maintains insurance, including coverage for product liability claims, in amounts that management believes are appropriate given the nature of its business.

Note 9 . Fair Value Measurements

The following table presents the Company's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of the following periods (in thousands):

	March 31, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Derivative assets	\$ —	\$ 361	\$ —	\$ 361	\$ —	\$ —	\$ —	\$ —
Total assets measured at fair value	\$ —	\$ 361	\$ —	\$ 361	\$ —	\$ —	\$ —	\$ —
Liabilities:								
Contingent consideration	\$ —	\$ —	\$ 19,100	\$ 19,100	\$ —	\$ —	\$ 19,112	\$ 19,112
Deferred consideration	—	189,501	—	189,501	—	187,158	—	187,158
Total liabilities measured at fair value	\$ —	\$ 189,501	\$ 19,100	\$ 208,601	\$ —	\$ 187,158	\$ 19,112	\$ 206,270

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 categories of the fair value hierarchy during the three -month periods ended March 31, 2019 and the year ended December 31, 2018 .

Derivative financial instruments are based on observable inputs that are corroborated by market data. Observable inputs include broker quotes and daily market foreign currency rates and forward pricing curves.

In connection with the acquisition of the BNP Business, the Company pays annual installments of \$40.0 million each in deferred consideration and up to \$8.0 million each in contingent consideration through April 2023. The fair value of the deferred consideration is calculated based on the net present value of cash payments using an estimated borrowing rate based on a quoted price for a similar liability. The Company recorded \$2.3 million for the accretion of interest on the deferred consideration during the three months ended March 31, 2019 . The fair value of contingent consideration is calculated using a discounted probability weighted valuation model. Significant assumptions used in the measurement include revenue projections and discount rates that are not observed in the market and thus represent Level 3 measurements.

Changes in estimated fair value of contingent consideration liabilities from December 31, 2018 through March 31, 2019 are as follows (in thousands):

	Contingent consideration liabilities (Level 3 measurement)	
Balance at December 31, 2018	\$	19,112
Cash payments		(12)
Balance at March 31, 2019	\$	19,100

Note 10. Derivatives and Hedging

In the normal course of business, the Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates. As part of its strategy to manage the level of exposure to the risk of fluctuations in foreign currency exchange rates, the Company uses designated cash flow hedges in the form of foreign currency forward contracts to mitigate the impact of foreign currency translation on transactions that are denominated primarily in the Euro. All hedging relationships for all derivative hedges and the underlying hedged items, as well as the risk management objectives and strategies for undertaking the hedge transactions are formally documented. The Company does not use any derivative financial instruments for trading or other speculative purposes.

Such forward foreign currency contracts are carried at fair value in other current assets or other current liabilities depending on the realized and unrealized gain or loss position of the hedged contract as of the balance sheet date. Changes in the value of the derivatives are recorded to other comprehensive income (loss) until the underlying hedged item is recognized in earnings, or the derivative no longer qualifies as a highly effective hedge. The cash flows from derivatives treated as hedges are classified in the Consolidated Statements of Cash Flows in the same category as the item being hedged.

The notional principal amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of our exposure to credit or market loss. Credit risk represents our gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency exchange rates at each respective date. We generally enter into master netting arrangements, which reduces credit risk by permitting net settlement of transactions with the same counterparty. We present our derivative assets and derivative liabilities at their net fair values. We did not have any derivative instruments with credit-risk related contingent features that would require us to post collateral.

The following table summarizes the fair value and notional amounts of the foreign currency forward contracts as of March 31, 2019 (in thousands):

	March 31, 2019	
	Notional Amount	Fair Value, Net
Prepaid expenses and other current assets	\$ 14,121	\$ 361

Total gain recognized in other comprehensive income for the three months ended March 31, 2019 was \$0.3 million, net of tax. There were no reclassifications from other comprehensive income into total revenues for the three months ended March 31, 2019.

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

In this Quarterly Report, all references to "we," "our" and "us" refer to Quidel Corporation and its subsidiaries.

Future Uncertainties and Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws that involve material risks, assumptions and uncertainties. Many possible events or factors could affect our future financial results and performance, such that our actual results and performance may differ materially from those that may be described or implied in the forward-looking statements. As such, no forward-looking statement can be guaranteed. Differences in actual results and performance may arise as a result of a number of factors including, without limitation: adverse changes in competitive conditions in domestic and international markets, the reimbursement system currently in place and future changes to that system, changes in economic conditions in our domestic and international markets, lower than anticipated market penetration of our products, our reliance on sales of our influenza diagnostic tests, fluctuations in our operating results resulting from the timing of the onset, length and severity of cold and flu seasons, seasonality, government and media attention focused on influenza and the related potential impact on humans from novel influenza viruses, the quantity of our product in our distributors' inventory or distribution channels, changes in the buying patterns of our distributors, and changes in the healthcare market and consolidation of our customer base; our development, acquisition and protection of proprietary technology rights; our development of new technologies, products and markets; our reliance on a limited number of key distributors; our exposure to claims and litigation that could result in significant expenses and could ultimately result in an unfavorable outcome for us, including the ongoing litigation between us and Beckman Coulter, Inc.; intellectual property risks, including but not limited to, infringement litigation; our need for additional funds to finance our capital or operating needs; the financial soundness of our customers and suppliers; acceptance of our products among physicians and other healthcare providers; competition with other providers of diagnostic products; failures or delays in receipt of new product reviews or related to currently-marketed products by the U.S. Food and Drug Administration (the "FDA") or other regulatory authorities or loss of any previously received regulatory approvals or clearances or other adverse actions by regulatory authorities; changes in government policies; costs of and adverse operational impact from failure to comply with government regulations in addition to FDA regulations; compliance with government regulations relating to the handling, storage and disposal of hazardous substances; third-party reimbursement policies and potential cost constraints; our failure to comply with laws and regulations relating to billing and payment for healthcare services; our ability to meet demand for our products; interruptions in our supply of raw materials; product defects; business risks not covered by insurance; costs and disruptions from failures in our information technology and storage systems; our exposure to data corruption, cyber-based attacks, security breaches and privacy violations; competition for and loss of management and key personnel; international risks, including but not limited to, compliance with product registration requirements, compliance with legal requirements, tariffs, exposure to currency exchange fluctuations and foreign currency exchange risk, longer payment cycles, lower selling prices and greater difficulty in collecting accounts receivable, reduced protection of intellectual property rights, social, political and economic instability, increased financial accounting and reporting burdens and complexities, taxes, and diversion of lower priced international products into U.S. markets; changes in tax rates and exposure to additional tax liabilities or assessments; risks relating to our acquisition and integration of the Triage MeterPro Cardiovascular and toxicology business and B-type Natriuretic Peptide assay business (the "Triage and BNP Businesses"); Alere's failure to perform under various transition agreements relating to our acquisition of the Triage and BNP Businesses; that we may incur substantial costs to build our information technology infrastructure to transition the Triage and BNP Businesses; that we may have to write off goodwill relating to our acquisition of the Triage and BNP Businesses; our ability to manage our growth strategy; the level of our indebtedness and deferred payment obligations; our ability to generate sufficient cash to meet our debt service and deferred contingent payment obligations and our ability to repay, renew or extend, our outstanding debt and its impact on our operations and our ability to obtain financing; that our Senior Credit Facility is secured by substantially all of our assets; the agreements for our indebtedness place operating and financial restrictions on us and our ability to operate our business; that an event of default could trigger acceleration of our outstanding indebtedness; that we may incur additional indebtedness; increases in interest rate relating to our variable rate debt; dilution resulting from future sales of our equity; volatility in our stock price; provisions in our charter documents, Delaware law and the indenture governing our Convertible Senior Notes that might delay or impede stockholder actions with respect to business combinations or similar transactions; our intention of not paying dividends; and our ability to identify and successfully acquire and integrate potential acquisition targets. Forward-looking statements typically are identified by the use of terms such as "may," "will," "should," "might," "expect," "anticipate," "estimate," "plan," "intend," "goal," "project," "strategy," "future," and similar words, although some forward-looking statements are expressed differently. Forward-looking statements in this Quarterly Report include, among others, statements concerning: our outlook for the remainder of 2019 regarding our strategy, revenue growth, gross margins and earnings, including the sources of expected growth; that we expect to continue to make substantial expenditures for research and development activities; projected capital expenditures for the remainder of 2019 and our source of funds for such expenditures; the sufficiency of our liquidity and capital resources; our strategy, goals, initiatives and objectives; our exposure to, and defenses against, claims and litigation; the sufficiency of our liquidity and our short-term needs

for capital; our use of foreign currency hedging agreements; that we may incur additional debt or issue additional equity; and our intention to continue to evaluate technology, product lines and acquisition opportunities. The risks described under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 , and elsewhere herein and in reports and registration statements that we file with the Securities and Exchange Commission (the “SEC”) from time to time, should be carefully considered. You are cautioned not to place undue reliance on these forward-looking statements, which reflect management’s analysis only as of the date of this Quarterly Report. Except as required by law, we undertake no obligation to publicly release the results of any revision or update of these forward-looking statements, whether as a result of new information, future events or otherwise.

The following should be read in conjunction with the Consolidated Financial Statements and Notes thereto beginning on page 3 of this Quarterly Report.

Overview

We have a leadership position in the development, manufacturing and marketing of rapid diagnostic testing solutions. These diagnostic testing solutions are separated into our four product categories: rapid immunoassay, cardiac immunoassay, specialized diagnostic solutions and molecular diagnostic solutions. We sell our products directly to end users and distributors, in each case, for professional use in physician offices, hospitals, clinical laboratories, reference laboratories, urgent care clinics, leading universities, retail clinics, pharmacies and wellness screening centers. We market our products through a network of distributors and through a direct sales force. The Company operates in one business segment that develops, manufactures and markets our four product categories.

Outlook

We anticipate revenue to grow during the remainder of 2019 and a related positive impact on gross margin and earnings. This growth is expected to be driven primarily by sales of our Cardiac Immunoassays, Sofia Immunoassays and molecular products. In addition, we expect continued and significant investment in research and development activities as we develop our next generation immunoassay and molecular platforms. We will continue our focus on prudently managing our business and delivering solid financial results, while at the same time striving to continue to introduce new products to the market and maintaining our emphasis on research and development investments for longer term growth. Finally, we will continue to evaluate opportunities to acquire new product lines, technologies and companies.

Three months ended March 31, 2019 compared to the three months ended March 31, 2018

Total Revenues

The following table compares total revenues for the three months ended March 31, 2019 and 2018 (in thousands, except percentages):

	Three months ended March 31,		Increase (Decrease)	
	2019	2018	\$	%
Rapid Immunoassay	\$ 62,494	\$ 80,685	\$ (18,191)	(23)%
Cardiac Immunoassay	65,872	68,444	(2,572)	(4)%
Specialized Diagnostic Solutions	13,854	14,871	(1,017)	(7)%
Molecular Diagnostic Solutions	5,748	5,143	605	12 %
Total revenues	\$ 147,968	\$ 169,143	\$ (21,175)	(13)%

For the three months ended March 31, 2019 , total revenue decreased to \$148.0 million from \$169.1 million in the prior period. The decrease in total revenues was primarily driven by lower Rapid Immunoassay sales as compared with the robust respiratory season in the prior year. The Cardiac business declined slightly from the prior year due to the currency impact of a strengthening US dollar, less favorable geographic mix and lower selling prices as we transition portions of the global business to distribution. The decrease in Specialized Diagnostic Solutions was driven primarily by lower sales of respiratory products from the Virology segment.

Gross Profit

Gross profit decreased to \$90.9 million , or 61% of revenue for the three months ended March 31, 2019 , compared to \$106.3 million , or 63% of revenue for the three months ended March 31, 2018 . The decreased gross profit was driven by lower Rapid Immunoassay revenue, currency fluctuation, less favorable geographic mix and lower Cardiac Immunoassay selling prices as a result of the transition to distribution. This was partially offset by the inventory step-up amortization during the three months ended March 31, 2018 , which did not recur during the three months ended March 31, 2019 . Gross margin declined compared to the same period in the prior year due to the same factors.

Operating Expenses

The following table compares operating expenses for the three months ended March 31, 2019 and 2018 (in thousands, except percentages):

	Three months ended March 31,					
	2019		2018		Increase (Decrease)	
	Operating expenses	As a % of total revenues	Operating expenses	As a % of total revenues	\$	%
Research and development	\$ 13,930	9%	\$ 12,621	7%	\$ 1,309	10 %
Sales and marketing	\$ 29,589	20%	\$ 28,558	17%	\$ 1,031	4 %
General and administrative	\$ 13,431	9%	\$ 10,532	6%	\$ 2,899	28 %
Acquisition and integration costs	\$ 2,824	2%	\$ 3,467	2%	\$ (643)	(19)%

Research and Development Expense

Research and development expense for the three months ended March 31, 2019 increased from \$ 12.6 million to \$ 13.9 million due primarily to increased third-party spend for the Savanna molecular diagnostic platform.

Research and development expenses include direct external costs such as fees paid to third-party contractors and consultants, and internal direct and indirect costs such as compensation and other expenses for research and development personnel, supplies and materials, clinical trials and studies, facility costs and depreciation.

Sales and Marketing Expense

Sales and marketing expense for the three months ended March 31, 2019 increased from \$28.6 million to \$29.6 million primarily driven by higher salaries and related costs as we complete the globalization of our commercial team, product promotion costs and professional service fees, partially offset by lower transition service fees.

General and Administrative Expense

General and administrative expense for the three months ended March 31, 2019 increased from \$10.5 million to \$13.4 million compared with the prior year period primarily due to increased compensation costs due to international expansion, facilities costs and professional service fees in the period.

Acquisition and Integration Costs

Acquisition and integration costs for the three months ended March 31, 2019 decreased from \$3.5 million to \$2.8 million compared with the prior year period, as more of the global operations become fully integrated into the business.

Other Expense, Net

Interest expense, net primarily relates to accretion of interest on the deferred consideration related to the BNP Business, coupon and accretion interest related to our Convertible Senior Notes and interest and amortization of deferred financing costs associated with the Credit Agreement. The decrease in interest expense of \$3.3 million over the prior year quarter was primarily due to lower debt balances under the Company's Credit Agreement and Convertible Senior Notes. See further discussion in Note 5 of the Notes to the Consolidated Financial Statements in this Quarterly Report.

During the three months ended March 31, 2018, the Company recorded loss on extinguishment of debt of \$4.6 million in related to the \$100.0 million early payment on the Company's previous Term Loan and the extinguishment of \$70.2 million in aggregate principal of the Convertible Senior Notes in exchange for the Company's common stock.

Income Taxes

For the three months ended March 31, 2019 and 2018 respectively, the income tax expense was \$1.7 million and \$4.7 million. The lower tax expense for the three months ended March 31, 2019 compared to income tax expense for the same period in the prior year is a result of lower pre-tax profits, increased benefits from the FDII provisions of the Tax Act, removal of the Company's valuation allowance at the end of 2018 and higher discrete tax benefits recorded in 2019 for excess tax benefits of stock-based compensation.

Liquidity and Capital Resources

As of March 31, 2019 and December 31, 2018, the principal sources of liquidity consisted of the following (in thousands):

	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 56,938	\$ 43,695
Amount available to borrow under the Revolving Credit Facility	\$ 141,812	\$ 121,812
Working capital including cash and cash equivalents	\$ 52,089	\$ 33,662
Adjusted working capital (1)	\$ 106,969	\$ 88,041

(1) The Convertible Senior Notes of \$54.9 million and \$54.4 million as of March 31, 2019 and December 31, 2018 respectively are excluded from the adjusted working capital amount as such notes may be settled at the Company's option in cash or a combination of cash and shares of common stock.

As of March 31, 2019, we had \$56.9 million in cash and cash equivalents, a \$13.2 million increase from December 31, 2018. Our cash requirements fluctuate as a result of numerous factors, such as cash generated from operations, progress in research and development projects, asset acquisitions, technological development spend and the time and expenditures required to obtain governmental approval of our products. In addition, we intend to continue to evaluate candidates for new product lines, company or technology acquisitions or technology licensing. If we decide to proceed with any such transactions, we may need to incur additional debt, or issue additional equity, to successfully complete such transactions.

Our primary source of liquidity, other than our holdings of cash and cash equivalents, has been cash flows from operations, debt financings and proceeds from issuance of common stock. Cash generated from operations provides us with the financial flexibility we need to meet normal operating, investing and financing needs. We anticipate that our current cash and cash equivalents, together with cash provided by operating activities as well as access to funds from our Revolving Credit Facility will be sufficient to fund our near-term capital and operating needs for at least the next 12 months. Normal operating needs include the planned costs to operate our business, including amounts required to fund working capital and capital expenditures. Our primary short-term needs for capital, which are subject to change, include expenditures related to:

- support of commercialization efforts related to our current and future products, including support of our direct sales force and field support resources both in the United States and abroad;
- interest on and repayments of our Convertible Senior Notes, Revolving Credit Facility, deferred consideration, contingent consideration and lease obligations;
- the continued advancement of research and development efforts;
- acquisitions of equipment and other fixed assets for use in our current and future manufacturing and research and development facilities;
- the integration of our recent acquisitions; and
- potential strategic acquisitions and investments.

Our Convertible Senior Notes due in 2020 have a coupon rate of 3.25% and are convertible as of March 31, 2019. The principal balance outstanding as of March 31, 2019 was \$58.5 million. Our Revolving Credit Facility has a principal balance outstanding of \$33.2 million and is due upon maturity on August 31, 2023. See Note 5 of the Notes to Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report for further discussion of the Convertible Senior Notes and the Revolving Credit Facility.

As of March 31, 2019, we have \$208.6 million in fair value of deferred and contingent considerations associated with prior acquisitions to be settled in future periods.

We expect our revenue and operating expenses will significantly impact our cash management decisions. Our future capital requirements and the adequacy of our available funds to service our long-term debt and to fund working capital expenditures and business development efforts will depend on many factors, including:

- our ability to successfully integrate our recently acquired businesses;
- our ability to realize revenue growth from our new technologies and create innovative products in our markets;
- our outstanding debt and covenant restrictions;
- our ability to leverage our operating expenses to realize operating profits as we grow revenue;
- competing technological and market developments; and
- the need to enter into collaborations with other companies or acquire other companies or technologies to enhance or complement our product and service offerings.

Cash Flow Summary

	Three months ended March 31,	
	2019	2018
Net cash provided by operating activities:	\$ 32,897	\$ 35,814
Net cash (used for) provided by investing activities:	(4,993)	141,695
Net cash used for financing activities:	(14,679)	(111,796)
Effect of exchange rates on cash	18	13
Net increase in cash and cash equivalents	\$ 13,243	\$ 65,726

Cash provided by operating activities of \$ 32.9 million during the three months ended March 31, 2019 reflects net income of \$24.8 million and non-cash adjustments of \$18.5 million primarily associated with depreciation, amortization, stock-based compensation and accretion of interest on deferred consideration. In addition, we used cash to fund our working capital requirements of \$11.2 million, primarily driven by an increase in accounts receivable and a decrease in accrued payroll and related expenses, partially offset by a decrease in prepaid expenses and other current and non-current assets primarily driven by a change in receivables related to our transition services agreements. For the three months ended March 31, 2018, cash provided by operating activities of \$35.8 million reflected net income of \$34.0 million and non-cash adjustments of \$27.7 million associated with depreciation, amortization, loss on extinguishment of debt, amortization of inventory step-up to fair value, accretion of interest on deferred consideration, and stock-based compensation. Offsetting this was a net working capital use of \$28.2 million, primarily related to an increase in accounts receivable.

Our investing activities used \$5.0 million during the three months ended March 31, 2019 primarily to fund building improvements and the purchase of production equipment, and Sofia, Solana and Triage instruments available for lease. Our investing activities provided \$141.7 million during the three months ended March 31, 2018 primarily due to sales of the Summers Ridge property for approximately \$146.6 million. Additionally, we used \$4.9 million on production equipment, building improvements and Sofia and Solana instruments available for lease and intangible assets.

We are currently planning approximately \$31.0 million in capital expenditures for the remainder of 2019. The primary purpose for our capital expenditures is to acquire manufacturing and scientific equipment, to purchase or develop information technology, to acquire Sofia, Solana and Triage instruments and to implement facility improvements. We plan to fund these capital expenditures with the cash on our balance sheet.

Cash used by financing activities was \$14.7 million during the three months ended March 31, 2019 primarily related to the payments on the Revolving Credit Facility of \$20.0 million and repurchases of common stock of \$1.5 million, partially offset by proceeds from issuance of stock of \$6.8 million from stock option exercises. Cash used by financing activities was \$111.8 million during the three months ended March 31, 2018 and was primarily related to payments on the Company's previous Term Loan of \$101.8 million and payments on the Revolving Credit Facility of \$10.0 million.

Seasonality

Sales of our respiratory products are subject to, and significantly affected by, the seasonal demands of the cold and flu seasons, prevalent during the fall and winter. As a result of these seasonal demands, we typically experience lower sales volume in the second and third quarters of the calendar year, and typically have higher sales in the first and fourth quarters of the

calendar year. Historically, sales of our respiratory products have varied from year to year based, in large part, on the severity, length and timing of the onset of the cold and flu season.

Off-Balance Sheet Arrangements

At March 31, 2019 and December 31, 2018, we did not have any relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Recent Accounting Pronouncements

Information about recently adopted and proposed accounting pronouncements is included in Note 1 of the Notes to Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report under the heading “Recent Accounting Pronouncements” and is incorporated herein by reference.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, management evaluates its estimates, including those related to customer programs and incentives, stock-based compensation, goodwill and intangible assets, business combinations, income taxes, and convertible debt. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

A comprehensive discussion of our critical accounting policies and management estimates is included 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, 2018. There were no material changes to our critical accounting policies and estimates during the three months ended March 31, 2019.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are not subject to interest rate risk on our Convertible Senior Notes as the notes have a fixed interest rate of 3.25%. For fixed rate debt, changes in interest rates will generally affect the fair value of the debt instrument, but not our earnings or cash flows. Under our current policies, we do not use interest rate derivative instruments to manage our exposure to changes in interest rates.

Our Senior Credit Facility debt is subject to interest rate risk as a portion of the interest rate fluctuates based on the LIBOR. We had \$33.2 million outstanding under our Senior Credit Facility at March 31, 2019. The weighted average interest rate on these borrowings is 4.38% as of March 31, 2019. A hypothetical 100 basis point adverse move in interest rates along the entire interest rate yield curve would increase our annual interest expense by approximately \$0.3 million. Based on our market risk sensitive instruments outstanding at March 31, 2019, we have determined that there was no material market risk exposure from such instruments to our consolidated financial position, results of operations or cash flows as of such date.

Our current investment policy with respect to our cash and cash equivalents focuses on maintaining acceptable levels of interest rate risk and liquidity. Although we periodically evaluate our placement of investments, as of March 31, 2019, we did not have any cash and cash equivalents placed in funds held in government money market accounts and commercial paper.

Foreign Currency Exchange Risk

We are exposed to foreign currency risks that arise from normal business operations. These risks include the translation of local currency balances of foreign subsidiaries, transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location’s functional currency.

During the three months ended March 31, 2019, we generated approximately \$29.5 million in revenue denominated in currencies other than the U.S. dollar. The major currencies to which our revenues are exposed are the Euro and the Chinese Yuan. A 100-basis point move in the average exchange rates (assuming a simultaneous and immediate 100 basis point change for the relevant period) would have resulted in an increase or decrease in our reported revenue for the three months ended March 31, 2019 as follows (in thousands):

<u>Currency</u>	Three months ended March 31, 2019	
Chinese Yuan	\$	146
Euro	\$	111

While our results of operations have been impacted by the effects of currency fluctuations, the revenue and expenses relating to our international operations are generally denominated in local currency, which reduces our economic exposure to foreign exchange risk in those jurisdictions.

Effective fiscal year 2019, the Company has initiated a foreign currency management policy which permits the use of derivative instruments, such as forward contracts, to reduce volatility in our results of operations resulting from foreign

exchange rate fluctuations. We do not enter into foreign currency derivative instruments for trading purposes or to engage in speculative activity. See further discussion in Note 10 to the Notes to the Consolidated Financial Statements for additional information related to such forward contracts.

ITEM 4. Controls and Procedures

Evaluation of disclosure controls and procedures: We have performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2019 at a reasonable assurance level to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in internal control over financial reporting: There was no change in our internal control over financial reporting during the quarter ended March 31, 2019 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

The information set forth in the section entitled “Litigation and Other Legal Proceedings” under Note 8 of the Notes to the Consolidated Financial Statements, included in Part I, Item I of this Quarterly Report, is incorporated herein by reference.

ITEM 1A. Risk Factors

There has been no material change in our risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 . For a detailed description of our risk factors, refer to Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2018 .

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

Issuer Purchases of Equity Securities

The table below sets forth information regarding repurchases of our common stock by us during the three months ended March 31, 2019 .

<u>Period</u>	<u>Total number of shares purchased (1)</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Approximate dollar value of shares that may yet be purchased under the plans or programs (2)</u>
December 31, 2018 - January 27, 2019	1,573	\$ 52.99	—	\$ 50,000,000
January 28, 2019 - February 24, 2019	20,262	60.01	—	50,000,000
February 25, 2019 - March 31, 2019	2,625	67.16	—	50,000,000
Total	24,460	\$ 60.33	—	\$ 50,000,000

(1) We withheld 24,460 shares of common stock from employees in connection with payment of minimum tax withholding obligations relating to the lapse of restrictions on certain RSUs during the three months ended March 31, 2019 .

(2) On December 12, 2018, the Board of Directors authorized a new stock repurchase program, pursuant to which up to \$50.0 million of the Company's shares of common stock may be purchased through December 12, 2020. The Company announced the stock repurchase program on December 18, 2018.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

3.1	<u>Restated Certificate of Incorporation of Quidel Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on February 27, 2015.)</u>
3.2	<u>Certificate of Amendment to the Restated Certificate of Incorporation of Quidel Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on May 6, 2015.)</u>
3.3	<u>Amended and Restated Bylaws of Quidel Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Form 8-K filed on February 27, 2015.)</u>
4.1	<u>Certificate of Designations of Series C Junior Participating Preferred Stock. (Incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-Q for the quarter ended September 30, 2010.)</u>
10.1(1)*	<u>Agreement Re: Change in Control, entered into on February 11, 2019 between the Registrant and Karen Gibson.</u>
31.1*	<u>Certification by Principal Executive Officer of Registrant pursuant to Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification by Principal Financial Officer of Registrant pursuant to Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certifications by Principal Executive Officer and Principal Financial Officer of Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

(1) Indicates a management plan or compensatory plan or arrangement.

SIGNATURES

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

Date: May 8, 2019

QUIDEL CORPORATION

/s/ DOUGLAS C. BRYANT

Douglas C. Bryant

President and Chief Executive Officer

(Principal Executive Officer)

/s/ RANDALL J. STEWARD

Randall J. Steward

Chief Financial Officer

(Principal Financial Officer)

Exhibit Index

Exhibit Number	
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AGREEMENT RE: CHANGE IN CONTROL

This AGREEMENT RE: CHANGE IN CONTROL (this "Agreement") is dated as of February 11, 2019 and is entered into by and between Karen Gibson ("Officer") and Quidel Corporation, a Delaware corporation (the "Company").

Background

The Company believes that because of its position in the industry, financial resources and historical operating results there is a possibility that the Company may become the subject of a Change in Control (as defined below), either now or at some time in the future.

The Company believes that it is in the best interest of the Company and its stockholders to foster Executive's objectivity in making decisions with respect to any pending or threatened Change in Control of the Company and to assure that the Company will have the continued dedication and availability of Executive, notwithstanding the possibility, threat or occurrence of a Change in Control. The Company believes that these goals can best be accomplished by alleviating certain of the risks and uncertainties with regard to Executive's financial and professional security that would be created by a pending or threatened Change in Control and that inevitably would distract Executive and could impair her ability to objectively perform her duties for and on behalf of the Company. Accordingly, the Company believes that it is appropriate and in the best interest of the Company and its stockholders to provide to Executive compensation arrangements upon a Change in Control that lessen Executive's financial risks and uncertainties and that are reasonably competitive with those of other corporations.

With these and other considerations in mind, the Compensation Committee of the Company has authorized the Company to enter into this Agreement with the Executive to provide the protections set forth herein for Executive's financial security following a Change in Control.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration the receipt of which is hereby acknowledged, it is hereby agreed as follows:

Agreement

1. Term of Agreement. This Agreement shall be effective as of the date of commencement of work and, subject to the provisions of Section 4, shall extend to (and thereupon automatically terminate) one (1) day after Executive's termination of

employment with the Company for any reason. No termination of this Agreement shall limit, alter or otherwise affect Executive's rights hereunder with respect to a Change in Control which has occurred prior to such termination, including without limitation Executive's right to receive the various benefits hereunder.

2. Purpose of Agreement. The purpose of this Agreement is to provide that, in the event of a "Change in Control," Executive may become entitled to receive certain additional benefits, as described herein, in the event of her termination under specified circumstances.

3. Change in Control. As used in this Agreement, the phrase "Change in Control" shall mean:

(i) Except as provided by subparagraph (iii) hereof, the acquisition (other than from the Company) by any person, entity or "group", within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (excluding, for this purpose, the Company or its subsidiaries, or any executive benefit plan of the Company or its subsidiaries which acquires beneficial ownership of voting securities of the Company), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of forty percent (40%) or more of either the then outstanding shares of common stock or the combined voting power of the Company's then outstanding voting securities entitled to vote generally in the election of directors; or

(ii) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (as of the date hereof the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the Company, provided that any person becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, is or was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the Directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger or consolidation with any other person, entity or corporation, other than

(1) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of another entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such other entity outstanding immediately after such merger or consolidation, or

(2) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires forty percent (40%) or more of the combined voting power of the Company's then outstanding voting securities; or

(iv) Approval by the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or other disposition by the Company of all or substantially all of the Company's assets.

4. Effect of a Change in Control. In the event of a Change in Control, Sections 6 through 13 of this Agreement shall become applicable to Executive. These Sections shall continue to remain applicable until the third anniversary of the date upon which the Change in Control occurs. On such third anniversary date, and provided that the employment of Executive has not been terminated on account of a Qualifying Termination (as defined in Section 5 below), this Agreement shall terminate and be of no further force or effect.

5. Qualifying Termination. If following, or within thirty (30) days prior to, a Change in Control Executive's employment with the Company and its affiliated companies is terminated, such termination shall be conclusively considered a "Qualifying Termination" unless:

(a) Executive voluntarily terminates her employment with the Company and its affiliated companies. Executive, however, shall not be considered to have voluntarily terminated her employment with the Company and its affiliated companies if, following, or within thirty (30) days prior to, the Change in Control, Executive's base salary is reduced or adversely modified in any material respect, or Executive's authority or duties are materially changed, and subsequent to such reduction, modification or change Executive elects to terminate her employment with the Company and its affiliated companies within sixty (60) days following such reduction, modification or change after having given the Company at least thirty (30) days notice of the same and a reasonable opportunity to cure during such 30-day notice period. For such purposes, Executive's authority or duties shall conclusively be considered to have been "materially changed" if, without Executive's express and voluntary written consent, there is any substantial diminution or adverse modification in Executive's title, status, overall position, responsibilities, reporting relationship, general working environment (including without limitation secretarial and staff support, offices, and frequency and mode of travel), or if, without Executive's express and voluntary written consent, Executive's job location is transferred to a site more than twenty-five (25) miles away from her place of employment thirty (30) days prior to the Change in Control. In this regard as well, Executive's authority and duties shall conclusively be considered to have been "materially changed" if, without Executive's express and voluntary written consent,

Executive no longer holds the same title or no longer has the same authority and responsibilities or no longer has the same reporting responsibilities, in each case with respect and as to a publicly held parent company which is not controlled by another entity or person.

(b) The termination is on account of Executive's death or Disability. For such purposes, "Disability" shall mean a physical or mental incapacity as a result of which Executive becomes unable to continue the performance of her responsibilities for the Company and its affiliated companies and which, at least three (3) months after its commencement, is determined to be total and permanent by a physician agreed to by the Company and Executive, or in the event of Executive's inability to designate a physician, Executive's legal representative. In the absence of agreement between the Company and Executive, each party shall nominate a qualified physician and the two physicians so nominated shall select a third physician who shall make the determination as to Disability.

(c) Executive is involuntarily terminated for "Cause." For this purpose, "Cause" shall be limited to only three types of events:

(1) the willful and deliberate refusal of Executive to comply with a lawful, written instruction of the Board of Directors, which refusal is not remedied by Executive within a reasonable period of time after her receipt of written notice from the Company identifying the refusal, so long as the instruction is consistent with the scope and responsibilities of Executive's position prior to the Change in Control;

(2) an act or acts of personal dishonesty by Executive which were intended to result in substantial personal enrichment of Executive at the expense of the Company; or

(3) Executive's conviction of any felony involving an act of moral turpitude.

6. Severance Payment. If Executive's employment is terminated as a result of a Qualifying Termination, the Company shall pay Executive within thirty (30) days after the Qualifying Termination a cash lump sum equal to one (1) times the Executive's Compensation (the "Severance Payment").

(a) For purposes of this Agreement, Executive's "Compensation" shall equal the sum of (i) Executive's highest annual salary rate with the Company within the three year period ending on the date of Executive's Qualifying Termination, plus (ii) a "Bonus Increment." The Bonus Increment shall equal the annualized average of all bonuses and incentive compensation payments paid to Executive during the two (2) year period immediately before the date of

Executive's Qualifying Termination under all of the Company's bonus and incentive compensation plans or arrangement.

(b) [Intentionally Deleted.]

(c) The Severance Payment hereunder is in lieu of any severance payment that Executive might otherwise be entitled to from the Company in the event of a Change in Control under the Company's applicable severance pay policies, if any, or under any other oral or written agreement; provided, however, that Executive shall continue to be entitled to receive the severance pay benefits under the Company's applicable policies, if any, or under another written agreement if and to the extent Executive's termination is not a Qualifying Termination after, or within thirty (30) days prior to, a Change in Control.

(d) Notwithstanding any provision of this Agreement to the contrary, if, at the time of Executive's termination of employment with the Company, Executive is a "specified employee" as defined in Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and one or more of the payments or benefits received or to be received by Executive pursuant to this Agreement (or any portion thereof) would become subject to the additional tax under Section 409A(a)(1)(B) of the Code or any other taxes or penalties imposed under Section 409A of the Code (the "Section 409A Taxes") if provided at the time otherwise required under this Agreement, no such payment or benefit will be provided under this Agreement until the earlier of (a) the date which is six (6) months after Executive's "separation from service" or (b) the date of Executive's death, or such shorter period that, as determined by the Company, is sufficient to avoid the imposition of Section 409A Taxes. The provisions of this Section 6(d) shall only apply to the minimum extent required to avoid Executive's incurrence of any Section 409A Taxes. In addition, if any provision of this Agreement would cause Executive to incur any penalty tax or interest under Section 409A of the Code or any regulations or Treasury guidance promulgated thereunder, the Company may reform such provision to maintain to the maximum extent practicable the original intent of the applicable provision without violating the provisions of Section 409A of the Code.

7. Additional Benefits.

(a) In the event of a Qualifying Termination, any and all unvested stock options of Executive shall immediately become fully vested and exercisable and any and all restrictions on Executive's restricted stock shall immediately and automatically lapse (except as otherwise expressly agreed to, in writing, by both parties, including whether prior to or after the execution of this Agreement).

(b) In the event of a Qualifying Termination, Executive shall be entitled to continue to participate in the following executive benefit programs which had been made available to Executive (including her family) before the Qualifying Termination: group medical insurance, group dental insurance, and group vision insurance. These programs shall be continued at no cost to Executive, except to the extent that tax rules require the inclusion of the value of such benefits in Executive's income. The programs shall be continued in the same way and at the same level as immediately prior to the Qualifying Termination. The programs shall continue for Executive's benefit for one (1) year after the date of the Qualifying Termination; provided, however, that Executive's participation in each of such programs shall be earlier terminated or reduced, as applicable, if and to the extent Executive receives benefits as a result of concurrent coverage through another program.

(c) In the event of a Qualifying Termination, Executive shall be entitled to receive from the Company, upon such Termination, the sum of \$25,000 to help defray legal fees, tax and accounting fees, executive outplacement services, and other costs associated with transitional matters.

8. Limitation on Payments. Notwithstanding anything to the contrary herein, in the event that the sum aggregate present value of (i) the Severance Payment payable under Section 6 hereof, (ii) any and all additional amount or benefits which may be paid or conferred to or on behalf of Executive in accordance with Section 7 hereof, and (iii) any and all other amounts or benefits paid or conferred to or on behalf of Executive would constitute a "parachute payment" ("parachute payment" as used in this Agreement shall be defined in accordance with Section 280G(b)(2), or any successor thereto, of the Code), the payments under this Agreement shall be reduced (by the minimum possible amounts) until no amount payable to Executive under this Agreement constitutes a parachute payment; provided, however, that no such reduction under this Section 8 shall be made if the net after-tax payment (after taking into account, Federal, state, local or other income and excise taxes) to which Executive would otherwise be entitled without such reduction would be greater than the net after-tax payment (after taking into account Federal, state, local or other income and excise taxes) to Executive resulting from the receipt of such payments with such reduction. If, as a result of subsequent events or conditions (including a subsequent payment or absence of a subsequent payment under this Agreement), it is determined that payments hereunder have been reduced by more than the minimum amount required under this Section 8, then an additional payment shall be promptly made to Executive in an amount equal to the excess reduction. All determinations required to be made under this Section 8, including whether a payment would result in a parachute payment and the assumptions to be utilized in arriving at such determination, shall be made and approved within fifteen (15) days after the Qualifying Termination by both (1) accountants selected by the Company and (2) Executive's designated financial or legal advisor.

9. Nonsolicitation Covenant. In consideration of the payments to be made to Executive hereunder, Executive hereby covenants, for a period of two (2) years following the Qualifying Termination, that she will not, directly or indirectly (whether as an officer, director, employee, individual proprietor, control shareholder, consultant, partner or otherwise) (i) solicit, recruit or hire-away any employee of the Company or successor of the Company or (ii) solicit, influence or attempt to influence any person or entity to terminate such person's or entity's contractual and/or business relationship with the Company or successor of the Company. With regard to this Section 9, Executive acknowledges that the provisions herein are reasonable in both scope and duration and necessary to protect the business of the Company or its successor.

10. Rights and Obligations Prior to a Change in Control. Prior to the date which is thirty (30) days before a Change in Control, the rights and obligations of Executive with respect to her employment by the Company shall be determined in accordance with the policies and procedures adopted from time to time by the Company and the provisions of any written employment contract in effect between the Company and Executive from time to time. This Agreement deals only with certain rights and obligations of Executive subsequent, or within thirty (30) days prior to, a Change in Control, and the existence of this Agreement shall not be treated as raising any inference with respect to what rights and obligations exist prior to the date which is thirty (30) days before a Change in Control. Unless otherwise expressly set forth in a separate written employment agreement between Executive and the Company, the employment of Executive is expressly at-will, and Executive or the Company may terminate Executive's employment with the Company at any time and for any reason, with or without cause, provided that if such termination occurs within thirty (30) days prior to or three (3) years after a Change in Control and constitutes a Qualifying Termination (as defined in Section 5 above) the provisions of this Agreement shall govern the payment of the Severance Payment and certain other benefits as provided herein.

11. Non-Exclusivity of Rights. Subject to Section 6(c) hereof, nothing in this Agreement shall prevent or limit Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company or any of its affiliated companies and for which Executive may qualify, nor shall anything herein limit or otherwise affect such rights as Executive may have under any stock option or other agreements with the Company or any of its affiliated companies. Except as otherwise provided in Section 6(c) hereof, amounts which are vested benefits or which Executive is otherwise entitled to receive under any plan or program of the Company or any of its affiliated companies at or subsequent to the date of any Qualified Termination shall be payable in accordance with such plan or program.

12. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counter-claim, recoupment, defense or other claim, right, or action which the Company may have against Executive or others. In no event shall Executive be obligated to seek other employment or to take any other action by way of

mitigation of the amounts payable to Executive under any of the provisions of this Agreement. The Company agrees to pay, to the full extent permitted by law, all legal fees and expenses which Executive may reasonably incur as a result of Executive's successful collection efforts to receive amounts payable hereunder, or as a result of any contest (regardless of the outcome thereof) by the Company or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by Executive about the amount of any payment pursuant to this Section).

13. Successors.

(a) This Agreement is personal to Executive, and without the prior written consent of the Company shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

(b) The rights and obligations of the Company under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Company.

14. Governing Law. This Agreement is made and entered into in the State of California, and the internal laws of California shall govern its validity and interpretation in the performance by the parties hereto of their respective duties and obligations hereunder.

15. Modifications. This Agreement may be amended or modified only by an instrument in writing executed by all of the parties hereto.

16. Dispute Resolution.

(a) Any controversy or dispute between the parties involving the construction, interpretation, application or performance of the terms, covenants, or conditions of this Agreement or in any way arising under this Agreement (a "Covered Dispute") shall, on demand by either of the parties by written notice served on the other party in the manner prescribed in Section 17 hereof, be referenced pursuant to the procedures described in California Code of Civil Procedure ("CCP") Sections 638, et seq., as they may be amended from time to time (the "Reference Procedures"), to a retired Judge from the Superior Court for the County of San Diego or the County of Orange for a decision.

(b) The Reference Procedures shall be commenced by either party by the filing in the Superior Court of the State of California for the County of San Diego or the County of Orange of a petition pursuant to CCP Section 638(a) (a "Petition"). Said Petition shall designate as a referee a Judge from the list of retired San Diego County and Orange County Superior Court Judges who have

made themselves available for trial or settlement of civil litigation under said Reference Procedures. If the parties hereto are unable to agree on the designation of a particular retired San Diego County or Orange County Superior Court Judge or the designated Judge is unavailable or unable to serve in such capacity, request shall be made in said Petition that the Presiding or Assistant Presiding Judge of the San Diego County Superior Court or the Orange County Superior Court, as relevant, appoint as referee a retired San Diego County or Orange County Superior Court Judge from the aforementioned list.

(c) Except as hereafter agreed by the parties, the referee shall apply the internal law of California in deciding the issues submitted hereunder. Unless formal pleadings are waived by agreement among the parties and the referee, the moving party shall file and serve its complaint within 15 days from the date a referee is designated as provided herein, and the other party shall have 15 days thereafter in which to plead to said complaint. Each of the parties reserves its respective rights to allege and assert in such pleadings all claims, causes of action, contentions and defenses which it may have arising out of or relating to the general subject matter of the Covered Dispute that is being determined pursuant to the Reference Procedures. Reasonable notice of any motions before the referee shall be given, and all matters shall be set at the convenience of the referee. Discovery shall be conducted as the parties agree or as allowed by the referee. Unless waived by each of the parties, a reporter shall be present at all proceedings before the referee.

(d) It is the parties' intention by this Section 16 that all issues of fact and law and all matters of a legal and equitable nature related to any Covered Dispute will be submitted for determination by a referee designated as provided herein. Accordingly, the parties hereby stipulate that a referee designated as provided herein shall have all powers of a Judge of the Superior Court including, without limitation, the power to grant equitable and interlocutory and permanent injunctive relief.

(e) Each of the parties specifically (i) consents to the exercise of jurisdiction over his person by a referee designated as provided herein with respect to any and all Covered Disputes; and (ii) consents to the personal jurisdiction of the California courts with respect to any appeal or review of the decision of any such referee.

(f) Each of the parties acknowledges that the decision by a referee designated as provided herein shall be a basis for a judgment as provided in CCP Section 644 and shall be subject to exception and review as provided in CCP Section 645.

17. Notices. Any notice or communications required or permitted to be given to the parties hereto shall be delivered personally or be sent by United States registered

or certified mail, postage prepaid and return receipt requested, and addressed or delivered as follows, or at such other addresses the party addressed may have substituted by notice pursuant to this Section:

Quidel Corporation
12544 High Bluff Drive, Suite 200
San Diego, CA 92130
Attn: President & CEO

Karen Gibson

18. Captions. The captions of this Agreement are inserted for convenience and do not constitute a part hereof.

19. Severability. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, but this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein and there shall be deemed substituted for such invalid, illegal or unenforceable provision such other provision as will most nearly accomplish the intent of the parties to the extent permitted by the applicable law. In case this Agreement, or any one or more the provisions hereof, shall be held to be invalid, illegal or unenforceable within any governmental jurisdiction or subdivision thereof, this Agreement or any such provision thereof shall not as a consequence thereof be deemed to be invalid, illegal or unenforceable in any other governmental jurisdiction or subdivision thereof.

20. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one in the same Agreement.

[Remainder of page left blank intentionally, signatures on following page]

IN WITNESS HEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the day and year first written above in San Diego, California.

QUIDEL CORPORATION, a Delaware corporation

By: /s/ DOUGLAS C. BRYANT

Printed Name: Douglas C. Bryant

Title: President & CEO

Quidel Corporation

EXECUTIVE

By: /s/ KAREN GIBSON

Karen Gibson

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

I, Douglas C. Bryant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quidel Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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 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: May 8, 2019

/s/ DOUGLAS C. BRYANT

Douglas C. Bryant

President and Chief Executive Officer

(Principal Executive Officer)

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

I, Randall J. Steward, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quidel Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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 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: May 8, 2019

/s/ RANDALL J. STEWARD

Randall J. Steward

Chief Financial Officer

(Principal Financial Officer)

Certifications by the Principal Executive Officer and Principal Financial Officer of Registrant pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Each of the undersigned hereby certifies, in his capacity as an officer of Quidel Corporation, a Delaware corporation (the “Company”), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2019 (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2019

/s/ DOUGLAS C. BRYANT

Douglas C. Bryant
President and Chief Executive Officer
(Principal Executive Officer)

/s/ RANDALL J. STEWARD

Randall J. Steward
Chief Financial Officer
(Principal Financial Officer)