
**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 June 30, 2020

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.)

9975 Summers Ridge Road, San Diego, California 92121

(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	The NASDAQ Stock 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 July 24, 2020, 41,950,137 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)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,589	\$ 52,775
Accounts receivable, net	111,027	94,496
Inventories	92,618	58,086
Prepaid expenses and other current assets	20,703	16,870
Total current assets	296,937	222,227
Property, plant and equipment, net	83,723	79,762
Right-of-use assets	88,906	92,119
Goodwill	337,019	337,018
Intangible assets, net	134,456	148,112
Deferred tax asset	24,523	24,502
Other non-current assets	7,367	7,127
Total assets	\$ 972,931	\$ 910,867
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 37,470	\$ 26,701
Accrued payroll and related expenses	22,506	17,286
Operating lease liabilities	6,670	6,412
Contingent consideration	5,811	5,969
Deferred consideration	42,000	42,000
Convertible Senior Notes	12,844	12,661
Convertible Senior Notes derivative	27,264	—
Other current liabilities	28,413	14,862
Total current liabilities	182,978	125,891
Operating lease liabilities - non-current	89,887	93,227
Deferred consideration - non-current	70,994	109,382
Contingent consideration - non-current	5,538	10,566
Other non-current liabilities	11,825	11,981
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value per share; 5,000 shares authorized; none issued or outstanding at June 30, 2020 and December 31, 2019	—	—
Common stock, \$0.001 par value per share; 97,500 shares authorized; 41,949 and 41,868 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	42	42
Additional paid-in capital	369,425	425,557
Accumulated other comprehensive loss	(331)	(463)
Retained earnings	242,573	134,684
Total stockholders' equity	611,709	559,820
Total liabilities and stockholders' equity	\$ 972,931	\$ 910,867

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total revenues	\$ 201,754	\$ 108,252	\$ 376,407	\$ 256,220
Cost of sales	53,003	49,073	112,665	106,114
Gross profit	148,751	59,179	263,742	150,106
Research and development	20,970	11,723	37,349	25,653
Sales and marketing	27,567	26,926	58,305	56,515
General and administrative	15,679	12,876	30,011	26,307
Acquisition and integration costs	872	1,836	2,786	4,660
Total operating expenses	65,088	53,361	128,451	113,135
Operating income	83,663	5,818	135,291	36,971
Other expense, net				
Interest and other expense, net	(3,467)	(4,505)	(6,274)	(9,087)
Loss on extinguishment of debt	—	(748)	—	(748)
Total other expense, net	(3,467)	(5,253)	(6,274)	(9,835)
Income before income taxes	80,196	565	129,017	27,136
Provision (benefit) for income taxes	12,544	(705)	21,128	1,022
Net income	\$ 67,652	\$ 1,270	\$ 107,889	\$ 26,114
Basic earnings per share	\$ 1.61	\$ 0.03	\$ 2.56	\$ 0.65
Diluted earnings per share	\$ 1.55	\$ 0.03	\$ 2.48	\$ 0.65
Shares used in basic per share calculation	42,117	40,209	42,086	39,957
Shares used in diluted per share calculation	43,746	41,429	43,574	42,315

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 67,652	\$ 1,270	\$ 107,889	\$ 26,114
Other comprehensive income (loss)				
Changes in cumulative translation adjustment, net of tax	265	94	200	(154)
Changes in unrealized gains (losses) from cash flow hedges:				
Net unrealized (losses) gains on derivative instruments	(138)	164	269	454
Reclassification of net realized gains on derivative instruments included in net income	(195)	(112)	(337)	(112)
Total change in unrealized (losses) gains from cash flow hedges, net of tax	(333)	52	(68)	342
Comprehensive income	\$ 67,584	\$ 1,416	\$ 108,021	\$ 26,302

See accompanying notes.

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

	<u>Common Stock</u>					
	<u>Shares</u>	<u>Par</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive (loss) income</u>	<u>Retained earnings</u>	<u>Total stockholders' equity</u>
Balance at December 31, 2019	41,868	\$ 42	\$ 425,557	\$ (463)	\$ 134,684	\$ 559,820
Issuance of common stock under equity compensation plans	153	—	3,571	—	—	3,571
Stock-based compensation expense	—	—	3,325	—	—	3,325
Repurchases of common stock	(25)	—	(1,954)	—	—	(1,954)
Other comprehensive gain, net of tax	—	—	—	200	—	200
Net income	—	—	—	—	40,237	40,237
Balance at March 31, 2020	41,996	42	430,499	(263)	174,921	605,199
Issuance of common stock under equity compensation plans	203	—	3,287	—	—	3,287
Stock-based compensation expense	—	—	4,665	—	—	4,665
Issuance of shares in exchange for Convertible Senior Notes	2	—	48	—	—	48
Derivative liabilities - Convertible Senior Notes elected to settle in cash	—	—	(26,180)	—	—	(26,180)
Repurchases of common stock	(252)	—	(42,894)	—	—	(42,894)
Other comprehensive loss, net of tax	—	—	—	(68)	—	(68)
Net income	—	—	—	—	67,652	67,652
Balance at June 30, 2020	<u>41,949</u>	<u>\$ 42</u>	<u>\$ 369,425</u>	<u>\$ (331)</u>	<u>\$ 242,573</u>	<u>\$ 611,709</u>

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

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive (loss) income</u>	<u>Retained earnings</u>	<u>Total stockholders' equity</u>
	<u>Shares</u>	<u>Par</u>				
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)
Other comprehensive gain, net of tax	—	—	—	42	—	42
Net income	—	—	—	—	24,844	24,844
Balance at March 31, 2019	39,806	40	374,148	(97)	86,607	460,698
Issuance of common stock under equity compensation and benefit plans	122	—	1,433	—	—	1,433
Stock-based compensation expense	—	—	3,309	—	—	3,309
Issuance of shares in exchange for Convertible Senior Notes	1,497	1	86,427	—	—	86,428
Tax impact from the conversion of Convertible Senior Notes	—	—	590	—	—	590
Reduction for equity component of Convertible Senior Notes exchanged	—	—	(43,516)	—	—	(43,516)
Repurchases of common stock	(7)	—	(395)	—	—	(395)
Other comprehensive gain, net of tax	—	—	—	146	—	146
Net income	—	—	—	—	1,270	1,270
Balance at June 30, 2019	41,418	\$ 41	\$ 421,996	\$ 49	\$ 87,877	\$ 509,963

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

	Six Months Ended June 30,	
	2020	2019
OPERATING ACTIVITIES:		
Net income	\$ 107,889	\$ 26,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and other	24,366	24,458
Stock-based compensation expense	9,008	6,960
Amortization of debt discount and deferred issuance costs	433	1,151
Change in fair value of acquisition contingencies	848	626
Accretion of interest on deferred consideration	3,612	4,504
Change in deferred tax assets and liabilities	(21)	—
Change in fair value of derivative liabilities - Convertible Senior Notes	1,084	—
Loss on extinguishment of debt	—	748
Changes in assets and liabilities:		
Accounts receivable	(16,450)	13,997
Inventories	(34,501)	2,704
Prepaid expenses and other current and non-current assets	(3,791)	2,139
Accounts payable	9,414	(808)
Accrued payroll and related expenses	4,974	(4,037)
Other current and non-current liabilities	13,312	(5,125)
Net cash provided by operating activities:	120,177	73,431
INVESTING ACTIVITIES:		
Acquisitions of property, equipment and intangibles	(13,388)	(11,784)
Net cash used for investing activities:	(13,388)	(11,784)
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	6,091	8,233
Payments on Revolving Credit Facility	—	(35,000)
Payments on finance lease obligation	(228)	(157)
Repurchases of common stock	(44,848)	(1,871)
Payments of acquisition contingent consideration	(6,034)	(4,031)
Payments of deferred consideration	(42,000)	(44,000)
Net cash used for financing activities:	(87,019)	(76,826)
Effect of exchange rates on cash	44	38
Net increase (decrease) in cash and cash equivalents	19,814	(15,141)
Cash and cash equivalents, beginning of period	52,775	43,695
Cash and cash equivalents, end of period	\$ 72,589	\$ 28,554
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Initial measurement of derivative liabilities – Convertible Senior Notes	\$ 26,180	\$ —
Purchase of property, equipment and intangibles by incurring current liabilities	\$ 2,175	\$ 1,351
Reduction of other current liabilities upon issuance of restricted share units	\$ 767	\$ 2,018
Extinguishment of Convertible Senior Notes through issuance of common stock	\$ 48	\$ 86,428

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 June 30, 2020, and for the three and six months ended June 30, 2020 and 2019, is unaudited. For further information, refer to the Company’s consolidated financial statements and notes thereto for the year ended December 31, 2019 included in the Company’s 2019 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 2020 and 2019, the Company’s fiscal year will end or has ended on January 3, 2021 and December 29, 2019, respectively. For 2020 and 2019, the Company’s second quarter ended on June 28, 2020 and June 30, 2019, respectively. For ease of reference, the calendar quarter end dates are used herein. The three and six-month periods ended June 30, 2020 and 2019 each included 13 and 26 weeks respectively.

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.

Significant Accounting Policies

During the six months ended June 30, 2020, 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, 2019.

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 June 30, 2020.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net income used for basic earnings per share	\$ 67,652	\$ 1,270	\$ 107,889	\$ 26,114
Interest expense on Convertible Senior Notes, net of tax (1)	179	—	360	1,489
Net income used for diluted earnings per share, if-converted method (1)	<u>\$ 67,831</u>	<u>\$ 1,270</u>	<u>\$ 108,249</u>	<u>\$ 27,603</u>
Basic weighted-average common shares outstanding	42,117	40,209	42,086	39,957
Dilutive potential shares issuable from Convertible Senior Notes (1)	392	6	401	1,062
Dilutive potential shares issuable from stock options and unvested RSUs	1,237	1,214	1,087	1,296
Diluted weighted-average common shares outstanding, if-converted (1)	<u>43,746</u>	<u>41,429</u>	<u>43,574</u>	<u>42,315</u>
Potentially dilutive shares excluded from calculation due to anti-dilutive effect (2)	<u>—</u>	<u>227</u>	<u>1</u>	<u>183</u>

(1) The if-converted method was not applicable for the three months ended June 30, 2019 due to its anti-dilutive impact. For the three months ended June 30, 2019, the number of potentially dilutive shares issuable from Convertible Senior Notes under the if-converted method was 1.6 million shares.

(2) 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 (in thousands):

	June 30, 2020	December 31, 2019
Raw materials	\$ 34,621	\$ 23,294
Work-in-process (materials, labor and overhead)	32,352	20,514
Finished goods (materials, labor and overhead)	25,645	14,278
Total inventories	<u>\$ 92,618</u>	<u>\$ 58,086</u>

Prepaid Expenses and Other Current Assets

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

	June 30, 2020	December 31, 2019
Other receivables	\$ 9,388	\$ 7,857
Prepaid expenses	9,284	4,568
Income taxes receivable	—	2,560
Other	2,031	1,885
Total prepaid expenses and other current assets	<u>\$ 20,703</u>	<u>\$ 16,870</u>

Other Current Liabilities

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

	June 30, 2020	December 31, 2019
Income and other taxes payable	\$ 18,951	\$ 1,214
Customer incentives	2,104	7,369
Customer deposits	1,417	1,500
Other	5,941	4,779
Total other current liabilities	<u>\$ 28,413</u>	<u>\$ 14,862</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.

The Company recognized income tax provision of \$12.5 million for the three months ended June 30, 2020 and income tax benefit of \$0.7 million for the three months ended June 30, 2019. The Company’s 16% effective tax rate for the three months ended June 30, 2020 and -125% effective tax rate for the three months ended June 30, 2019 differed from the federal statutory rate of 21% primarily due to the discrete impact of excess tax deductions from stock-based compensation, the benefit from research and development (“R&D”) credits and the benefit from corporate deductions attributable to Foreign Derived Intangible Income (“FDII”). The Company recognized income tax expense of \$21.1 million and \$1.0 million for the six months ended June 30, 2020 and 2019, respectively, which represents an effective tax rate of 16% and 4%, respectively. The Company’s 16% effective tax rate for the six months ended June 30, 2020 differed from the federal statutory rate of 21% primarily due to the tax benefit recorded for excess tax benefits of stock-based compensation, the benefit from R&D credits and corporate deductions attributable to FDII.

The Company is subject to periodic audits by domestic and foreign tax authorities. Due to the carryforward of unutilized credits, 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.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted on March 27, 2020. The CARES Act includes, among other things, refundable payroll tax credits, deferment of employer side social security payments and technical amendments regarding the income tax depreciation of qualified improvement property placed in service after December 31, 2017. These amendments allow for retroactive accelerated income tax depreciation on certain of our leasehold improvement assets. We are currently assessing the impact of these provisions to our financial statements.

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) 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 second quarter of 2020, the Company received notices to convert \$5.9 million in principal which the Company elected to settle in cash. The settlement amount is determined based on the volume-weighted average stock price during the 25 consecutive trading days beginning on, and including, the third trading day after the conversion date notice is received. The election to settle the notes in cash is irrevocable and the settlement amount is variable based on the stock price. As of June 30, 2020, this 25-day period had not been completed. Therefore, the Company reclassified the conversion feature from equity at fair value and recorded a derivative liability of \$26.2 million, measured as of the respective conversion dates. As of June 30, 2020, the derivative liability for the unsettled conversions were revalued, resulting in a loss of \$1.1 million included in other expense, net on the Consolidated Statements of Income. The derivative liability was valued using the Company's volume-weighted average stock price for a 25-day trading period preceding the measurement dates.

During the second quarter of 2020, 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 June 30, 2020. The Convertible Senior Notes outstanding as of June 30, 2020 other than the conversions elected to be settled in cash during the second quarter of 2020 may be settled at the Company's option in cash or a combination of cash and shares of common stock. If such Convertible Senior Notes were converted as of June 30, 2020, the if-converted amount would exceed the principal by \$27.3 million.

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 six months ended June 30, 2020, the Company recorded total interest expense of \$0.4 million related to the Convertible Senior Notes, of which \$0.2 million related to the amortization of the debt discount and issuance costs and \$0.2 million related to the coupon due semi-annually. During the six months ended June 30, 2019, the Company recorded total interest expense of \$1.8 million related to the Convertible Senior Notes of which \$0.9 million related to the amortization of the debt discount and issuance costs and \$0.9 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 prices and is a Level 2 measurement.

	June 30, 2020	December 31, 2019
Principal amount outstanding	\$ 13,082	\$ 13,131
Unamortized discount of liability component	(210)	(415)
Unamortized debt issuance costs	(28)	(55)
Net carrying amount of liability component	\$ 12,844	\$ 12,661
Carrying value of equity component, net of issuance costs	\$ 1,247	\$ 2,265
Fair value of outstanding Convertible Senior Notes	\$ 90,363	\$ 30,991
Remaining amortization period of discount on the liability component	0.5 years	1.0 year

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. There is no balance outstanding as of June 30, 2020. The Credit Agreement has a term of five years and 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 is 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 June 30, 2020.

Interest expense recognized under the Credit Agreement, including amortization of deferred issuance cost, was \$0.2 million and \$0.4 million, respectively for the three and six months ended June 30, 2020 and \$0.5 million and \$1.1 million, respectively, for the three and six months ended June 30, 2019.

Note 6. Stockholders’ Equity

Issuances of Common Stock

A summary of the status of stock option activity for the six months ended June 30, 2020 is as follows (in thousands, except price data):

	Shares	Weighted-average exercise price per share
Outstanding at December 31, 2019	944	\$ 30.63
Granted	122	77.54
Exercised	(220)	21.12
Forfeited	(12)	43.34
Outstanding at June 30, 2020	834	\$ 39.85

A summary of the status of restricted stock unit activity for the six months ended June 30, 2020 is as follows (in thousands, except price data):

	Shares	Weighted-average grant date fair value
Non-vested December 31, 2019	786	\$ 41.88
Granted	202	85.34
Vested	(107)	26.07
Forfeited	(18)	58.11
Non-vested at June 30, 2020	863	\$ 53.71

During the six months ended June 30, 2020, the Company issued 27,826 shares of common stock in connection with the Company’s employee stock purchase plan (the “ESPP”).

During the three months ended June 30, 2020, 247,172 shares of outstanding common stock were repurchased under the Company's previously announced share repurchase program for approximately \$42.2 million. As of June 30, 2020, there was \$7.8 million available under the Company's share repurchase program.

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of sales	\$ 435	\$ 262	\$ 693	\$ 542
Research and development	866	544	1,508	1,109
Sales and marketing	1,341	904	2,638	2,023
General and administrative	2,488	1,662	4,169	3,286
Total stock-based compensation expense	\$ 5,130	\$ 3,372	\$ 9,008	\$ 6,960

As of June 30, 2020, total unrecognized compensation expense was \$33.9 million, which is expected to be recognized over a weighted-average period of approximately 2.7 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.

	Six Months Ended June 30,	
	2020	2019
Risk-free interest rate	1.34 %	2.51 %
Expected option life (in years)	5.14	5.68
Volatility rate	39 %	39 %
Dividend rate	0 %	0 %
Weighted-average grant date fair value	\$ 28.39	\$ 23.67

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 six months ended June 30, 2020 and 2019 was \$85.34 and \$59.19, respectively.

Compensation expense capitalized to inventory and compensation expense related to the Company's ESPP were not material for the three and six months ended June 30, 2020 or 2019.

Note 7. Industry and Geographic Information

The Company operates in one reportable segment. Sales to customers outside the U.S. represented \$96.8 million (26%) and \$87.7 million (34%) of total revenue for the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and December 31, 2019, accounts receivable due from foreign customers were \$23.9 million and \$23.0 million, respectively.

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

	Six Months Ended June 30,	
	2020	2019
Customer:		
A	19 %	13 %
B	19 %	16 %
C	10 %	5 %
D	9 %	14 %
Total:	57 %	48 %

As of June 30, 2020 and December 31, 2019, accounts receivable from customers with balances due in excess of 10% of total accounts receivable totaled \$73.5 million and \$67.4 million, respectively.

Consolidated total revenues by product category for the three and six months ended June 30, 2020 and 2019 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Rapid Immunoassay	\$ 80,606	\$ 21,772	\$ 176,536	\$ 84,266
Cardiometabolic Immunoassay	54,191	67,982	108,092	133,854
Specialized Diagnostic Solutions	11,780	14,286	28,239	28,140
Molecular Diagnostic Solutions	55,177	4,212	63,540	9,960
Total revenues	\$ 201,754	\$ 108,252	\$ 376,407	\$ 256,220

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.

Summers Ridge Lease — The Company leases three of the four buildings that are located on the Summers Ridge Property in San Diego, California with an initial term through January 2033 with options to extend the lease for two additional five-year terms upon satisfaction of certain conditions, which have not been included in the determination of the lease term. The lease is subject to must-take provisions related to one additional building, which will have the same lease term as the three buildings originally leased. The remaining building is subject to the expiration of the lease with its current tenant for which the expiration date is not yet known.

As a result of the relocation of the Company's headquarters to the Summers Ridge Property, the Company entered into a sublease of its former headquarters building in January 2020, with minimum rent of \$2.4 million under the sublease agreement. Lease income for the six months ended June 30, 2020 was \$0.4 million.

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 have the power to direct the activities of the partnership and does not have the obligation to absorb losses or receive benefits of the partnership that could potentially be significant to the partnership. The McKellar Court lease was scheduled to expire on December 31, 2020. On July 27, 2020 the Company entered into an amendment to the lease to extend the lease term through December 31, 2030. In addition, the McKellar court lease contains options to extend the lease for two additional five-year periods. Total minimum lease payments under the lease agreement for the initial period is \$31.6 million.

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 Natrietic 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. On August 29, 2019, the Court of Appeal issued a written decision ruling in Quidel’s favor and overturning the December 7 Order. Beckman challenged the Court of Appeal’s ruling with a petition for rehearing on September 10, 2019, which was denied on September 13, 2019.

On October 1, 2019, Beckman filed a petition for review of the Court of Appeal’s ruling with the Supreme Court of California (the “Supreme Court”). We subsequently filed an answer to Beckman’s petition, Beckman filed a response to our reply and on November 13, 2019, the Supreme Court granted review of the Court of Appeal ruling, with further action in this matter being deferred pending consideration and disposition of a related issue in *Ixchel Pharma v. Biogen*, or pending further order of the Supreme Court.

On November 22, 2019, the trial court continued the stay at the trial court level and scheduled a status conference for December 11, 2020.

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 subject to review by the Supreme Court; 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 December 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):

	June 30, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Cash equivalents (money market funds)	\$ 50,054	\$ —	\$ —	\$ 50,054	\$ —	\$ —	\$ —	\$ —
Derivative assets	—	187	—	187	—	321	—	321
Total assets measured at fair value	<u>\$ 50,054</u>	<u>\$ 187</u>	<u>\$ —</u>	<u>\$ 50,241</u>	<u>\$ —</u>	<u>\$ 321</u>	<u>\$ —</u>	<u>\$ 321</u>
Liabilities:								
Derivative liabilities	\$ —	\$ 343	\$ —	\$ 343	\$ —	\$ 433	\$ —	\$ 433
Derivative liabilities - Convertible Senior Notes converted in cash	—	27,264	—	27,264	—	—	—	—
Contingent consideration	—	—	11,349	11,349	—	—	16,535	16,535
Deferred consideration	—	112,994	—	112,994	—	151,382	—	151,382
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 140,601</u>	<u>\$ 11,349</u>	<u>\$ 151,950</u>	<u>\$ —</u>	<u>\$ 151,815</u>	<u>\$ 16,535</u>	<u>\$ 168,350</u>

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 and six-month periods ended June 30, 2020 and the year ended December 31, 2019.

Cash equivalents consist of funds held in money market accounts that are valued using quoted prices in active markets for identical instruments. Derivative financial instruments are measured based on observable inputs that are corroborated by market data. Observable inputs include broker quotes and daily market foreign currency rates, forward pricing curves and volume-weighted average stock price of the Company's common stock, which are deemed to be a Level 2 inputs.

In connection with the acquisition of the BNP Business, the Company pays annual installments of \$40.0 million each in deferred consideration through April 2023 and up to \$8.0 million each in contingent consideration through April 2022. 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 \$1.7 million and \$3.6 million, respectively, for the accretion of interest on the deferred consideration during the three and six months ended June 30, 2020. 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. The discount rate of 3.5% used as of June 30, 2020 was based on estimated borrowing rate for a similar liability.

Changes in estimated fair value of contingent consideration liabilities from December 31, 2019 through June 30, 2020 were as follows (in thousands):

	Contingent consideration liabilities (Level 3 measurement)
Balance at December 31, 2019	\$ 16,535
Cash payments	(6,034)
Change in estimated fair value, recorded in general and administrative expenses	848
Balance at June 30, 2020	<u>\$ 11,349</u>

Note 10. Foreign Currency Hedges

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 and the Chinese Yuan. The Company also uses non-designated forward contracts to hedge non-functional currency denominated balance sheet assets. All

hedging relationships for all designated 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 duration of these forward contracts is generally less than one year. 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 prepaid expenses and other current assets or other current liabilities depending on the unrealized gain or loss position of the hedged contract as of the balance sheet date. Changes in the value of the designated 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. Changes in the value of non-designated derivatives are recorded to other expense, net on the Consolidated Statements of Income. 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 designated and non-designated foreign currency forward contracts as of June 30, 2020 and December 31, 2019 (in thousands):

	June 30, 2020		December 31, 2019	
	Notional Amount	Fair Value, Net	Notional Amount	Fair Value, Net
Designated cash flow hedges:				
Prepaid expenses and other current assets	\$ 14,251	\$ 183	\$ 27,944	\$ 321
Other current liabilities	\$ 22,459	\$ 343	\$ 6,219	\$ 433
Non-designated forward contracts:				
Prepaid expenses and other current assets	\$ 9,053	\$ 4	\$ —	\$ —

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: the impact of the novel virus (COVID-19) global pandemic; adverse changes in competitive conditions, 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 and other respiratory or novel virus 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 other respiratory or novel viruses and the related potential impact on humans from such 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; our ability to identify and successfully acquire and integrate potential acquisition targets; 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”); that we may have to write off goodwill relating to our acquisitions; our ability to manage our growth strategy and identify and integrate acquired companies or technologies and our ability to obtain financing; the level of our indebtedness and deferred payment obligations; our ability to generate sufficient cash to meet our debt service and deferred and contingent payment obligations; that our Revolving 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; and our intention of not paying dividends. 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 2020 regarding our strategy, revenue growth, gross margins and earnings, including the sources of expected growth; our strategy for the remainder of 2020, including research and development activities and emphasis and our production capacity expansion; that we expect to continue to make substantial expenditures for research and development activities; the nature and amount of projected capital expenditures for the remainder of 2020 and our source of funds for such expenditures; the sufficiency of our liquidity and capital resources; our strategy, goals, initiatives and objectives; our strategy, exposure to, and defenses against, claims and litigation, including the pending litigation with Beckman; the sufficiency of our liquidity and

our short-term needs for capital; the sufficiency of our insurance coverage; that we may incur additional debt or issue additional equity; and our intention to continue to evaluate technology, product lines and acquisition and licensing opportunities. The risks described under “Risk Factors” in Item 1A Part II of this quarterly report on Form 10-Q and item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, 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, cardiometabolic 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. We operate in one business segment that develops, manufactures and markets our four product categories.

Impact of COVID-19 Pandemic

Events surrounding the SARS-CoV-2 virus that emerged in Wuhan, China in late 2019 and the ensuing global pandemic has had a dramatic impact on businesses globally and our business as well. The severity and duration of the pandemic and economic repercussions of the virus and government actions in response to the pandemic remain uncertain and will ultimately depend on many factors, including the speed and effectiveness of the containment efforts throughout the world, the duration and spread of the virus, as well as potential seasonality of new outbreaks.

In the United States, federal, state, and local government directives and policies have been put in place to manage public health concerns and address the economic impacts, including sharply reduced business activity, increased unemployment, and overall uncertainty presented by this new healthcare challenge. Similar actions have been taken by governments around the world. While all our sites are currently operational globally, our facilities could be required to temporarily curtail production levels or temporarily cease operations based on government mandates or as a result of the pandemic. To mitigate risks, we continue to evaluate the nature and extent COVID-19 may have to our business and operations and adjust risk mitigation planning and business continuity activities as needed.

New SARS-CoV-2 Diagnostic Products

As a leader in point-of-care diagnostics and respiratory infectious disease diagnostics, we are well-positioned to respond to the COVID-19 pandemic. We are working closely with national and local governments, agencies, and industry partners to develop, manufacture and supply critical diagnostic products to support governmental testing initiatives to help curb the spread of the SARS-CoV-2 virus. In particular, we have developed new molecular and antigen products to diagnose the SARS-CoV-2 virus. We have experienced exceptional demand for such products.

We expect significant demand for our molecular and antigen assays and instruments to continue for the near-term at significant levels, especially in the United States. At the same time, we also have observed decreased demand for certain of our other diagnostic products, such as cardiometabolic products, in connection with customers closing or decreasing their operations and/or patients deferring treatment. We expect this decreased demand to continue for some period of time. In addition, our non-COVID-19 product development and regulatory clearances may be delayed as attention remains focused on the pandemic. Notably, the extent to which COVID-19 will impact demand for our products depends on future developments, which are highly uncertain and very difficult to predict, including new information that may emerge concerning the severity of the coronavirus and actions to contain and treat its impacts.

Operations and Employee Safety

While many governments have implemented lockdown and shelter-in-place orders, requiring non-essential businesses to shut down operations, our business is deemed “essential” and we have continued to operate and manufacture and distribute products to customers. We have implemented preparedness plans designed to help protect the safety of our employees and

maintain operational continuity with an emphasis on manufacturing, product distribution and product development during this crisis. To date, we have been able to maintain our operations without significant interruption and have been able to develop and quickly scale manufacturing capacity for new SARS-CoV-2 products.

To mitigate the pandemic's impact, we have transitioned non-essential employees to work remotely, and have implemented preventative protocols intended to help safeguard our on-site employees and maintain business continuity in the event government restrictions or severe outbreaks impact our operations at certain sites. We have also enhanced cleaning and sanitizing procedures, provided additional personal hygiene supplies and protective equipment to personnel, implemented health screening, limited access to facilities to outside persons who are not critical to continuing our operations, trained employees on guidelines for social distancing and face coverings and isolation and quarantine of personnel as we deem appropriate given the facts, circumstances and applicable laws or regulations. These measures have created additional burdens on our infrastructure and information technology systems and may result in decreased productivity and increased operating costs. However, the various responses we have put in place have to date resulted in limited disruption to our normal business operations.

We remain committed to the health and safety of our employees and communities and are seeking to slow the spread of COVID-19. However, as the pandemic continues to spread over time, there is an increased risk of employee absenteeism and if a significant number of our employees are unable to perform their duties for a period of time, we may experience difficulties in operating one or more of our facilities which could adversely impact our financial results.

Supply Chains

As a result of the COVID-19 pandemic, we have seen delays and allocations of certain raw materials and components for our products, but to date such supply disruptions have resulted in minimal disruption to our business operations. However, we are continuously evaluating our supply chain to identify potential gaps and have taken steps intended to ensure continuity. We have considered potential political, legal or regulatory actions that could be taken as a result of the pandemic in jurisdictions where we manufacture, source or distribute products that could impact our supply of products to our customers or the availability of raw materials and components from our suppliers. We cannot currently predict the frequency, duration or scope of these government actions and any supply disruptions, and the availability of various products is dependent on our suppliers, their location and the extent to which they are impacted by the COVID-19 pandemic. We are proactively working with manufacturers, industry partners and government agencies to help meet the needs of our customers during the pandemic.

Recently, our inventory levels have fluctuated in response to supply dynamics and larger and more frequent customer orders than were originally expected when contractual arrangements were initiated for our new COVID-19 products. In response, we have added alternate suppliers for some critical components and instruments, increased inventory of raw materials needed in our operations, increased manufacturing capacity and continue to explore opportunities to further increase manufacturing capacity in our Athens, Ohio and San Diego, California facilities.

We believe that for the near future, our supply chains supporting our products should remain intact, providing us sufficient access to key materials needed for manufacturing. We are also seeking to minimize the impact of delays and secure allocations of vital raw materials to meet extremely high demand for our products. However, dependent on the duration and continued intensity of the current pandemic, we believe it is possible that we may experience some sort of interruption to our supply chains, and such an interruption could materially affect our ability to timely manufacture and distribute our products and unfavorably impact our results of operations depending on the nature and duration of such interruption.

Outlook

We anticipate continued revenue growth during the remainder of 2020, including a favorable impact from the sale of testing products related to the COVID-19 pandemic, with a positive impact on gross margin and earnings. We expect to continue to make significant investment in research and development activities as we develop our next generation immunoassay and molecular platforms, and additional assays to be launched on our current platforms, including our recent focus on the continued development of assays to address the COVID-19 pandemic. Additionally, we are investing in the expansion of our production capacity in response to the demand driven by the COVID-19 pandemic. We intend to 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 expect to continue to evaluate opportunities to acquire new product lines, technologies and companies.

Three months ended June 30, 2020 compared to the three months ended June 30, 2019

Total Revenues

The following table compares total revenues for the three months ended June 30, 2020 and 2019 (in thousands, except percentages):

	Three Months Ended June 30,		Increase (Decrease)	
	2020	2019	\$	%
Rapid Immunoassay	\$ 80,606	\$ 21,772	\$ 58,834	270 %
Cardiometabolic Immunoassay	54,191	67,982	(13,791)	-20 %
Specialized Diagnostic Solutions	11,780	14,286	(2,506)	-18 %
Molecular Diagnostic Solutions	55,177	4,212	50,965	1,210 %
Total revenues	\$ 201,754	\$ 108,252	\$ 93,502	86 %

For the three months ended June 30, 2020, total revenue increased to \$201.8 million from \$108.3 million in the prior period. The Rapid Immunoassay category was the largest contributor to revenue growth, driven by the Sofia SARS Antigen and influenza assays. Molecular Diagnostic sales increased \$51.0 million over prior year, driven by the Lyra SARS-CoV-2 assays. The decrease in Cardiometabolic Immunoassay and Specialized Diagnostic Solutions sales was mainly due to lower demand during the COVID-19 pandemic. Currency exchange rate impact for the quarter was unfavorable by \$0.6 million, which had a negative 1% impact on the growth rate.

Gross Profit

Gross profit increased to \$148.8 million, or 74% of revenue for the three months ended June 30, 2020, compared to \$59.2 million, or 55% of revenue for the three months ended June 30, 2019. The increased gross profit was driven by the demand for the new Sofia SARS Antigen and Lyra SARS-CoV-2 products. In addition, higher volumes contributed to increased manufacturing overhead absorption. Gross margin improvement versus last year was due to the same factors.

Operating Expenses

The following table compares operating expenses for the three months ended June 30, 2020 and 2019 (in thousands, except percentages):

	Three Months Ended June 30,				Increase (Decrease)	
	2020		2019		\$	%
	Operating expenses	As a % of total revenues	Operating expenses	As a % of total revenues		
Research and development	\$ 20,970	10 %	\$ 11,723	11 %	\$ 9,247	79 %
Sales and marketing	\$ 27,567	14 %	\$ 26,926	25 %	\$ 641	2 %
General and administrative	\$ 15,679	8 %	\$ 12,876	12 %	\$ 2,803	22 %
Acquisition and integration costs	\$ 872	— %	\$ 1,836	2 %	\$ (964)	-53 %

Research and Development Expense

Research and development expense for the three months ended June 30, 2020 increased from \$11.7 million to \$21.0 million due primarily to increased spending on Sofia, Savanna and next-generation platform development projects. We also incurred higher material and labor costs associated with COVID-19 product development.

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 June 30, 2020 increased from \$26.9 million to \$27.6 million due primarily to increased headcount and higher compensation costs driven by improved performance in the quarter. This was partially offset by reduced travel, meeting and trade show costs due to the COVID-19 travel restrictions.

General and Administrative Expense

General and administrative expense for the three months ended June 30, 2020 increased from \$12.9 million to \$15.7 million compared with the prior year due to higher compensation costs.

Acquisition and Integration Costs

Acquisition and integration costs of \$0.9 million for the three months ended June 30, 2020 related to the evaluation of new business development opportunities. Acquisition and integration costs of \$1.8 million for the three months ended June 30, 2019 consisted primarily of global operation integration costs.

Other Expense, Net

The following table compares Other expense, net, for the three months ended June 30, 2020 and 2019 (in thousands, except percentages):

	Three months ended June 30,		Increase (decrease)	
	2020	2019	\$	%
Interest and other expense, net	\$ (3,467)	\$ (4,505)	\$ (1,038)	-23 %
Loss on extinguishment of debt	—	(748)	(748)	-100 %
Total other expense, net	\$ (3,467)	\$ (5,253)	(1,786)	-34 %

Interest and other expense, net primarily relates to accretion of interest on the deferred consideration, coupon and accretion of interest related to our Convertible Senior Notes and interest and amortization of deferred financing costs associated with our Credit Agreement. The decrease in interest and other expense, net of \$1.0 million over the prior year was primarily due to lower debt balances under the Company's Convertible Senior Notes, Revolving Credit Facility and lower accretion of interest as the total deferred consideration liability outstanding declined through 2020. Such decrease was partially offset by \$1.1 million change in fair value of derivative liabilities associated with Convertible Senior Notes conversion. See further discussion in Note 5 of the Notes to the Consolidated Financial Statements in this Quarterly Report. Loss on extinguishment of debt of \$0.7 million for the three months ended June 30, 2019 relates to the extinguishment of \$45.4 million in aggregate principal of the Convertible Senior Notes in exchange for the Company's common stock during the period.

Income Taxes

For the three months ended June 30, 2020 and 2019, we recognized income tax expense of \$12.5 million and income tax benefit of \$0.7 million, respectively. The higher tax expense for the three months ended June 30, 2020 compared to the same period in the prior year is a result of higher pre-tax profits and lower proportional discrete tax benefits recorded in 2020 for excess tax benefits of stock-based compensation.

Six months ended June 30, 2020 compared to the six months ended June 30, 2019

Total Revenues

The following table compares total revenues for the six months ended June 30, 2020 and 2019 (in thousands, except percentages):

	Six Months Ended June 30,		Increase (Decrease)	
	2020	2019	\$	%
Rapid Immunoassay	\$ 176,536	\$ 84,266	\$ 92,270	109 %
Cardiometabolic Immunoassay	108,092	133,854	(25,762)	-19 %
Specialized Diagnostic Solutions	28,239	28,140	99	— %
Molecular Diagnostic Solutions	63,540	9,960	53,580	538 %
Total revenues	\$ 376,407	\$ 256,220	\$ 120,187	47 %

For the six months ended June 30, 2020, total revenue increased to \$376.4 million from \$256.2 million in the prior year. The Rapid Immunoassay category was the largest contributor to revenue growth, driven by the Sofia SARS Antigen and influenza assays. Molecular Diagnostic sales grew \$53.6 million over prior year, driven by the Lyra SARS-CoV-2 assays. The decrease in Cardiometabolic Immunoassay sales was mainly due to lower demand during the COVID-19 pandemic. Currency exchange rate impact for the quarter was unfavorable by \$1.2 million, which had a minimal impact on the growth rate.

Gross Profit

Gross profit increased to \$263.7 million, or 70% of revenue for the six months ended June 30, 2020, compared to \$150.1 million, or 59% of revenue for the six months ended June 30, 2019. The increased gross profit was driven by the demand for the new Sofia SARS Antigen, Lyra SARS-CoV-2 and influenza products, which drove improved product mix. In addition, higher volumes contributed to increased manufacturing overhead absorption. Gross margin improved compared to the same period in the prior year due to the same factors.

Operating Expenses

The following table compares operating expenses for the six months ended June 30, 2020 and 2019 (in thousands, except percentages):

	Six Months Ended June 30,											
	2020				2019							
	Operating expenses		As a % of total revenues		Operating expenses		As a % of total revenues		Increase (Decrease)			
									\$	%		
Research and development	\$	37,349	10	%	\$	25,653	10	%	\$	11,696	46	%
Sales and marketing	\$	58,305	15	%	\$	56,515	22	%	\$	1,790	3	%
General and administrative	\$	30,011	8	%	\$	26,307	10	%	\$	3,704	14	%
Acquisition and integration costs	\$	2,786	1	%	\$	4,660	2	%	\$	(1,874)	-40	%

Research and Development Expense

Research and development expense for the six months ended June 30, 2020 increased from \$25.7 million to \$37.3 million due primarily to increased spending on Sofia and next-generation platform development projects, Savanna instrument development costs, higher labor and material costs associated with COVID-19 related product development and higher employee-related costs.

Research and development expenses include direct external costs such as fees paid to 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 six months ended June 30, 2020 increased \$1.8 million to \$58.3 million compared with the prior year, primarily due to higher employee-related costs, partially offset by reduced travel, meeting and trade show costs due to the COVID-19 travel restrictions.

General and Administrative Expense

General and administrative expense for the six months ended June 30, 2020 increased from \$26.3 million to \$30.0 million compared with the prior year period, due to increased compensation costs from global expansion and improved performance during the current period. The increase was partially offset by lower professional service fees incurred in the period.

Acquisition and Integration Costs

Acquisition and integration costs of \$2.8 million for the six months ended June 30, 2020 primarily related to the evaluation of new business development opportunities. Acquisition and integration costs of \$4.7 million for the six months ended June 30, 2019 consisted primarily of global operation integration costs.

Other Expense, net

The following table compares Other expense, net, for the six months ended June 30, 2020 and 2019 (in thousands, except percentages):

	Six months ended June 30,		Increase (decrease)	
	2020	2019	\$	%
Interest and other expense, net	\$ (6,274)	\$ (9,087)	\$ (2,813)	-31 %
Loss on extinguishment of debt	—	(748)	(748)	-100 %
Total other expense, net	\$ (6,274)	\$ (9,835)	\$ (3,561)	-36 %

Interest and other and other expense, net was \$6.3 million and \$9.1 million for the six months ended June 30, 2020 and 2019, respectively. Interest and other expense, net primarily relates to accretion of interest on the deferred consideration, coupon and accretion of interest related to our Convertible Senior Notes and interest and amortization of deferred financing costs associated with the debt outstanding under our Credit Agreement. The decrease in interest and other expense, net over the prior year was primarily due to lower debt balances under the Company's Revolving Credit Facility and Convertible Senior Notes and lower deferred consideration liability outstanding. Such decrease was partially offset by \$1.1 million change in fair value of derivative liabilities associated with Convertible Senior Notes conversion recorded in the second quarter of 2020. Loss on extinguishment of debt of \$0.7 million for the six months ended June 30, 2019 relates to the extinguishment of \$45.4 million in aggregate principal of the Convertible Senior Notes in exchange for the Company's common stock during the period.

Income Taxes

For the six months ended June 30, 2020 and 2019, the income tax expense was \$21.1 million and \$1.0 million, respectively. The primary drivers of the increased income tax expense in the six months ended June 30, 2020 are the increased pre-tax profits offset by the lower proportional impact from discrete excess tax benefits from stock-based compensation. In the six months ended June 30, 2019, the excess tax benefits from stock-based compensation offset a greater portion of the tax expense from earnings.

Liquidity and Capital Resources

As of June 30, 2020 and December 31, 2019, the principal sources of liquidity consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 72,589	\$ 52,775
Amount available to borrow under the Revolving Credit Facility	\$ 175,000	\$ 175,000
Working capital including cash and cash equivalents	\$ 113,959	\$ 96,336

As of June 30, 2020, we had \$72.6 million in cash and cash equivalents, a \$19.8 million increase from December 31, 2019. Our cash requirements fluctuate as a result of numerous factors, such as cash generated from operations, progress in research and development or capital expansion projects and integration activities. 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 the transactions.

Our primary source of liquidity, other than our holdings of cash and cash equivalents, has been cash flows from operations and financing. Cash generated from operations provides us with the financial flexibility we need to meet normal operating, investing and financing needs. We do not currently expect the impacts of the COVID-19 pandemic to adversely affect our liquidity and capital resources or our ability to meet financial commitments. We anticipate that our current cash and cash equivalents, together with cash provided by operating activities 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:

- 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;

- support of commercialization efforts related to our current and future products, including support of our direct sales force and field support resources;
- interest on and repayments of our Convertible Senior Notes, deferred consideration, contingent consideration and lease obligations; 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 June 30, 2020. The principal balance outstanding as of June 30, 2020 was \$13.1 million. During the three months ended June 30, 2020, the Company elected to settle \$5.9 million in principal of the Convertible Senior Notes in cash, for which the settlement amount is based on the volume-weighted average trading price of the Company's stock during a 25-day trading period that had not completed as of June 30, 2020. Based upon such election, the Company recorded a derivative liability of \$27.3 million as of June 30, 2020. Such conversions will be settled in the quarter ending September 30, 2020. Refer to Note 5 of this quarterly report for additional information.

The Amended and Restated Credit Agreement provides us with a Revolving Credit Facility of \$175.0 million and there is no balance outstanding as of June 30, 2020. The Revolving Credit Facility matures 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 June 30, 2020, we have \$11.3 million in fair value of contingent consideration and \$113.0 million of deferred consideration associated with acquisitions to be settled in future periods.

On December 12, 2018, the Company's Board of Directors authorized a 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. During the six months ended June 30, 2020, the Company repurchased 247,172 shares of outstanding common stock under this program for approximately \$42.2 million.

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 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

	Six Months Ended June 30,	
	2020	2019
Net cash provided by operating activities:	\$ 120,177	\$ 73,431
Net cash used for investing activities:	(13,388)	(11,784)
Net cash used for financing activities:	(87,019)	(76,826)
Effect of exchange rates on cash	44	38
Net increase (decrease) in cash and cash equivalents	\$ 19,814	\$ (15,141)

Cash provided by operating activities of \$120.2 million during the six months ended June 30, 2020 reflects net income of \$107.9 million and non-cash adjustments of \$39.3 million primarily associated with depreciation, amortization, stock-based compensation and accretion of interest on deferred consideration. Partially offsetting these inflows was a net working capital use of cash of \$40.4 million driven by increases in accounts receivable and product inventory, both associated with the increased demand due to the COVID-19 pandemic. For the six months ended June 30, 2019, cash provided by operating activities of \$73.4 million reflected net income of \$26.1 million and non-cash adjustments of \$38.4 million primarily associated with depreciation, amortization, stock-based compensation and accretion of interest on deferred consideration. In addition,

changes in our working capital during the six months ended June 30, 2019 benefited cash by \$14.0 million, primarily driven by a decrease in accounts receivable.

Our investing activities used \$13.4 million during the six months ended June 30, 2020 primarily related to investments in manufacturing equipment, Sofia, Solana and Triage instruments available for lease, building improvements and scientific equipment. Our investing activities used \$11.8 million during the six months ended June 30, 2019 primarily related to computer equipment, building improvements, Sofia, Solana and Triage instruments available for lease and manufacturing equipment.

We are currently planning approximately \$60 million in capital expenditures for the remainder of 2020. The primary purpose for our capital expenditures is to invest in manufacturing capacity expansion, to acquire scientific equipment, to acquire Sofia, Solana and Triage instruments, to purchase or develop information technology 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 \$87.0 million during the six months ended June 30, 2020 primarily related to repurchases of common stock of \$44.8 million, payments on deferred consideration of \$42.0 million and acquisition contingent consideration of \$6.0 million, partially offset by proceeds from issuance of stock of \$6.1 million. Cash used by financing activities was \$76.8 million during the six months ended June 30, 2019 primarily related to the payments of deferred consideration of \$44.0 million, Revolving Credit Facility of \$35.0 million and acquisition contingent consideration of \$4.0 million as well as repurchases of common stock of \$1.9 million, partially offset by proceeds from issuance of stock of \$8.2 million from stock option exercises.

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. In Q2 2020, such seasonality impact was offset by the demand from the COVID-19 pandemic. Although the impact of COVID-19 on our business is still uncertain, there are early indications that COVID-19 may have some seasonality to its prevalence that could also impact the sales of our respiratory products from quarter to quarter.

Off-Balance Sheet Arrangements

At June 30, 2020 and December 31, 2019, 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.

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 revenue recognition, goodwill and intangibles, business combinations and income taxes. 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, 2019. There were no material changes to our critical accounting policies and estimates during the six months ended June 30, 2020.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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 current investment policy with respect to our cash and cash equivalents focuses on maintaining acceptable levels of interest rate risk and liquidity. Although we continually evaluate our placement of investments, as of June 30, 2020, our cash and cash equivalents were placed in highly liquid operating accounts as well as government money market accounts.

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 six months ended June 30, 2020, total revenues increased 47% to \$376.4 million, of which approximately \$51.3 million in revenue was denominated in currencies other than the U.S. dollar. We believe constant currency and constant currency growth rate enhance the comparison of our financial performance from period-to-period, and to that of our competitors. Constant currency revenue excludes the impact from foreign currency fluctuations, which was an unfavorable \$1.2 million for the six months ended June 30, 2020, and is calculated by translating current period revenues using prior period exchange rates, net of any hedging effect recognized in the current period. Constant currency revenue growth (expressed as a percentage) is calculated by determining the change in current period constant currency revenues over prior period revenues.

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 six months ended June 30, 2020 as follows (in thousands):

<u>Currency</u>	Six Months Ended June 30, 2020	
Chinese Yuan	\$	258
Euro	\$	206

The Company has a foreign currency management policy in place that permits the use of derivative instruments, such as forward contracts, to reduce volatility in our financial statements 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, which information is incorporated herein by reference.

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 June 30, 2020 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 June 30, 2020 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

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, 2019. 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, 2019 except as described below.

The novel coronavirus (COVID-19) global pandemic could adversely affect our business operations, financial performance and results of operations, the extent of which is uncertain and difficult to predict.

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China, which has since spread globally, including severe and widespread transmission in the United States. In March 2020, the World Health Organization declared COVID-19 a global pandemic. Further, the COVID-19 outbreak has resulted in government authorities throughout the United States and around the world implementing numerous measures to try to reduce the spread of COVID-19, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. As a result of the COVID-19 outbreak and the related responses from government authorities, our business operations, financial performance and results of operations may be adversely impacted in a number of ways, including, but not limited to, the following:

- a slowdown or stoppage in the supply chain of the raw materials and packaging used to manufacture our products or inability to secure additional or alternate supply of raw materials or other products needed to manufacture our products at optimal levels;
- our inventory might be requisitioned, diverted or allocated by government order such as under emergency, disaster and civil defense declarations. For example, government actions in response to the COVID-19 pandemic affect our supply allocation, and those and our own allocation decisions can impact our customer relationships;
- interruptions or delays in global shipping to transport and deliver our products to our distributors and customers;
- interruptions in normal operations of certain end use customers that could result in reductions in demand for non-COVID-19 related healthcare operations and testing;
- disruptions to our operations, including a shutdown of one or more of our facilities or product lines; restrictions on our operations and sales, marketing and distribution efforts; and interruptions to our research and development, manufacturing, clinical/regulatory and other important business activities;
- shutdown or interruption of one or more of our manufacturing facilities due to contamination and costs incurred to clean and disinfect a facility following contamination;
- inefficiencies and increased costs in our production and shipping processes due to premium pay for manufacturing and certain other employees as well as social distancing and personal protective equipment requirements;
- delays in operations arising from limitations in the availability of personal protective equipment and clean room equipment and supplies for certain of our manufacturing personnel;
- limitations on employee resources and availability, including due to sickness, government restrictions, the desire of employees to avoid contact with large groups of people, school closures or mass transit disruptions;
- an increase in cyber-attacks given our public profile as a manufacturer of SARS-CoV-2 products;
- a fluctuation in foreign currency exchange rates or interest rates could result from market uncertainties;

- an increase in the cost or the difficulty to obtain debt or equity financing;
- an increase in exposure to credit losses for customers adversely affected by the COVID-19 pandemic;
- an increase in regulatory restrictions or continued market volatility could hinder our ability to execute strategic business activities, including acquisitions; and
- negative impact on our stock price.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, and suppliers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed.

We are continuing to rapidly and significantly expand our manufacturing capacity, including expanding and scaling our infrastructure to support our COVID-19 test products. This rapid expansion can place significant strain on our management, personnel, operations, systems and financial resources. Failure to successfully manage this expansion could negatively affect our operating results, including due to inefficiencies in implementing such expansion or higher costs for materials, technology, equipment and personnel during the intensity of the COVID-19 pandemic. Moreover, we may not realize the revenue growth and profitability we anticipate for our COVID-19 and other respiratory diagnostic products, which could result, among other factors, in a failure to realize the benefits of our manufacturing capacity expansion and the value of those investments being written down or written off.

Additionally, COVID-19 could negatively affect our internal controls over financial reporting as a portion of our workforce is required to work from home and therefore new processes, procedures, and controls could be required to respond to changes in our business environment. Further, should any key employees become ill from COVID-19 and unable to work, the attention of the management team could be diverted.

The effects of COVID-19 may exacerbate our other risk factors discussed in in Part I, Item 1A, Risk Factors, in our Annual report on Form 10-K for the year ended December 31, 2019. The degree to which COVID-19 impacts our business operations, financial performance and results of operations will depend on future developments, which are highly uncertain, continuously evolving and cannot be predicted, including, but not limited to, the duration and spread of the COVID-19 outbreak, its severity, the actions to contain the virus or treat its impact, how quickly and to what extent normal economic and operating conditions can resume and the residual economic and other effects. Because this situation continues to evolve globally, the ultimate impacts to us of COVID-19 are uncertain, but such impacts could have a material adverse effect on our business, financial performance and financial condition.

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 June 30, 2020.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (2)
April 1, 2020 - April 26, 2020	1,286	\$ 119.05	—	\$ 50,000,000
April 27, 2020 - May 24, 2020	1,115	179.13	—	50,000,000
May 25, 2020 - June 28, 2020	249,476	170.50	247,172	7,822,075
Total	251,877	\$ 164.59	247,172	\$ 7,822,075

(1) In addition to our share repurchase program, we withheld 4,705 shares of common stock from employees in connection with payment of minimum tax withholding obligations relating to the vesting of RSUs during the three months ended June 30, 2020.

(2) On December 12, 2018, the Board of Directors authorized a 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. During the three months ended June 30, 2020, the Company repurchased 247,172 shares of outstanding common stock under this program for approximately \$42.2 million.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

ITEM 1.01 Entry into a Material Definitive Agreement.

As disclosed in prior filings, Quidel Corporation (the "Company") leases its McKellar Court manufacturing facility in San Diego, California.

On July 27, 2020, the Company entered into a Fourth Amendment to Single Tenant Absolute Net Lease (the "Fourth Amendment"). Under the Fourth Amendment, the existing lease term was extended from December 31, 2020 to December 31, 2030. In addition, the Company will have two renewal options for two additional periods of five years each following the initial expiration of the lease on December 31, 2030. Total minimum lease payments under the lease agreement for the extended term through December 2030 total approximately \$31.6 million.

A copy of the Fourth Amendment is filed as Exhibit 10.1.

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 10-Q for the quarter ended September 30, 2010.)</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*	<u>Fourth Amendment to Single Tenant Absolute Net Lease.</u>
31.1*	<u>Certification by Principal Executive Officer of Quidel Corporation 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 Quidel Corporation 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 Quidel Corporation pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (included as Exhibit 101).

* Filed herewith.
** Furnished herewith.

SIGNATURES

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

Date: July 30, 2020

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	
3.1	<u>Restated Certificate of Incorporation of Quidel Corporation. (Incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-Q for the quarter ended September 30, 2010.)</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*	<u>Fourth Amendment to Single Tenant Absolute Net Lease.</u>
31.1*	<u>Certification by Principal Executive Officer of Quidel Corporation pursuant to Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
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104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (included as Exhibit 101).

* Filed herewith.

** Furnished herewith.

FOURTH AMENDMENT TO SINGLE TENANT ABSOLUTE NET LEASE

THIS FOURTH AMENDMENT TO SINGLE TENANT ABSOLUTE NET LEASE (this Amendment) is entered into as of this 27th day of July, 2020, by and between 10165 MCKELLAR COURT, L.P., a California limited partnership ("Landlord"), and QUIDEL CORPORATION, a Delaware corporation ("Tenant").

RECITALS

A. WHEREAS, Landlord and Tenant are parties to that certain Single Tenant Absolute Net Lease dated as of December 20, 1999 (the "Original Lease"), as amended by that certain First Amendment to Single Tenant Absolute Net Lease dated as of December 20, 1999, that certain Second Amendment to Single Tenant Absolute Net Lease dated as of December 21, 2009 and that certain Third Amendment to Single Tenant Absolute Net Lease dated as of January 1, 2016 (collectively, and as the same may have been further amended, amended and restated, supplemented or modified from time to time, the "Existing Lease"), whereby Tenant leases certain premises (the "Premises") at 10165 McKellar Court, San Diego, California;

B. WHEREAS, Landlord and Tenant desire to extend the Lease Term; and

C. WHEREAS, Landlord and Tenant desire to modify and amend the Existing Lease only in the respects and on the conditions hereinafter stated.

AGREEMENT

NOW, THEREFORE, Landlord and Tenant, in consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, agree as follows:

1. Definitions. For purposes of this Amendment, capitalized terms shall have the meanings ascribed to them in the Existing Lease unless otherwise defined herein. The Existing Lease, as amended by this Amendment, is referred to collectively herein as the "Lease." From and after the date hereof, the term "Lease," as used in the Existing Lease, shall mean the Existing Lease, as amended by this Amendment.

2. Fourth Amendment Extension Term. The Lease Term is hereby extended for ten (10) years and, therefore, the Lease Term shall expire on December 31, 2030 (the "New Expiration Date"). The period commencing on January 1, 2021 (the "Fourth Amendment Extension Term Commencement Date") and ending on the New Expiration Date shall be referred to herein as the "Fourth Amendment Extension Term." From and after the Fourth Amendment Extension Term Commencement Date, any references in the Lease to the Lease Term shall mean the Lease Term as extended pursuant to this Amendment.

3. Monthly Rent. Commencing as of the Fourth Amendment Extension Term Commencement Date, initial Monthly Rent for the Premises shall be as follows:

<u>Dates</u>	<u>Square Feet of Rentable Area</u>	<u>Monthly Rent per Square Foot of Rentable Area</u>	<u>Monthly Rent</u>
1/1/21 – 12/31/21	72,863	\$3.15 monthly	\$229,518.45

Monthly Rent shall be subject to an annual upward adjustment of three percent (3%) of the then-current Monthly Rent. The first such adjustment shall become effective commencing on the first (1st) annual anniversary of the Fourth Amendment Extension Term Commencement Date, and subsequent adjustments shall become effective on each of the successive nine (9) annual anniversaries during the Fourth Amendment Extension Term.

4. **Condition of Premises.** Tenant acknowledges that (a) it is in possession of and is fully familiar with the condition of the Premises and, notwithstanding anything contained in the Lease to the contrary, agrees to take the same in its condition “as is” as of the first day of the Fourth Amendment Extension Term, and (b) except as otherwise provided in the Existing Lease, Landlord shall have no obligation to alter, repair or otherwise prepare the Premises for Tenant’s continued occupancy for the Fourth Amendment Extension Term or to pay for any improvements to the Premises.

5. **CASp.** The Premises have not undergone inspection by a Certified Access Specialist (“CASp,” as defined in California Civil Code Section 55.52). Even if not required by California law, the Premises may be inspected by a CASp to determine whether the Premises comply with the Americans with Disabilities Act, and Landlord may not prohibit a CASp performing such an inspection. If Tenant requests that such an inspection take place, Landlord and Tenant shall agree on the time and manner of the inspection, as well as which party will pay the cost of the inspection and the cost to remedy any defects identified by the CASp. A CASp can inspect the Premises and determine whether the Premises comply with all of the applicable construction-related accessibility standards under California State law. Although California State law does not require a CASp inspection of the Premises, Landlord may not prohibit Tenant from obtaining a CASp inspection of the Premises for the occupancy or potential occupancy of Tenant, if requested by Tenant. Landlord and Tenant shall agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction-related accessibility standards within the Premises.

6. **Options to Extend Term.** Tenant shall have two (2) options (each, an “Option”) to further extend the Lease Term by five (5) years each as to the entire Premises (and no less than the entire Premises) upon the following terms and conditions. Any extension of the Lease Term pursuant to an Option shall be on all the same terms and conditions as the Lease, except as follows:

6.1 Monthly Rent at the commencement of each Option term shall equal the then-current fair market value for comparable office and laboratory space in the Sorrento Mesa submarket of comparable age, quality, level of finish and proximity to amenities and public transit, and containing systems and improvements similar to those present in the Premises as of the date that Tenant gives Landlord written notice of Tenant’s election to exercise such Option (“**FMV**”), and in each case shall be further increased on each annual anniversary of the Option

term commencement date by three percent (3%). Tenant may, no more than thirteen (13) months prior to the date the Lease Term is then scheduled to expire, request Landlord's estimate of the FMV for the next Option term. Landlord shall, within fifteen (15) days after receipt of such request, give Tenant a written proposal of such FMV. If Tenant gives written notice to exercise an Option, such notice shall specify whether Tenant accepts Landlord's proposed estimate of FMV. If Tenant gives written notice to exercise an Option but does not accept the FMV, then the parties shall endeavor to agree upon the FMV, taking into account all relevant factors, including (a) the size of the Premises, (b) the length of the Option term, (c) rent in comparable buildings in the Sorrento Mesa submarket, including concessions offered to new tenants, such as free rent, tenant improvement allowances and moving allowances, (d) Tenant's creditworthiness and (e) the quality and location of the Building. In the event that the parties are unable to agree upon the FMV within thirty (30) days after Tenant notifies Landlord that Tenant is exercising an Option, then either party may request that the same be determined as follows: a senior officer of a nationally recognized leasing brokerage firm with local knowledge of the Sorrento Mesa laboratory/research and development leasing submarket (the "Baseball Arbitrator") shall be selected and paid for jointly by Landlord and Tenant. If Landlord and Tenant are unable to agree upon the Baseball Arbitrator, then the same shall be designated by the local chapter of the Judicial Arbitration and Mediation Services or any successor organization thereto (the "JAMS"). The Baseball Arbitrator selected by the parties or designated by JAMS shall (y) have at least ten (10) years' experience in the leasing of laboratory/research and development space in the Sorrento Mesa submarket and (z) not have been employed or retained by either Landlord or Tenant or any affiliate of either for a period of at least ten (10) years prior to appointment pursuant hereto. Each of Landlord and Tenant shall submit to the Baseball Arbitrator and to the other party its determination of the FMV. The Baseball Arbitrator shall grant to Landlord and Tenant a hearing and the right to submit evidence. The Baseball Arbitrator shall determine which of the two (2) FMV determinations more closely represents the Baseball Arbitrator's view of the actual FMV. The Baseball Arbitrator may not select any other FMV for the Premises other than one submitted by Landlord or Tenant. The FMV selected by the Baseball Arbitrator shall be binding upon Landlord and Tenant and shall serve as the basis for determination of Monthly Rent payable for the applicable Option term. If, as of the commencement date of an Option term, the amount of Monthly Rent payable during the Option term shall not have been determined, then, pending such determination, Tenant shall pay Monthly Rent equal to the Monthly Rent payable with respect to the year immediately preceding the commencement date of the Option term that is then commencing (such amount, the "Temporary Monthly Rent"). After the final determination of Monthly Rent payable for the Option term, the parties shall promptly execute a written amendment to the Lease specifying (y) the amount of Monthly Rent to be paid during the applicable Option term and (z) if applicable, the process for the refund or credit to Tenant if the final determined Monthly Rent of the Option Term is less than the Temporary Monthly Rent, or payment to Landlord if the final determined Monthly Rent is greater than the Temporary Monthly Rent, in each case of the excess or shortfall between the final determined Monthly Rent during the Option Term and the Temporary Monthly Rent, respectively. Any failure of the parties to execute such amendment shall not affect the validity of the FMV determined pursuant to this Section.

6.2 No Option is assignable separate and apart from the Lease.

6.3 An Option is conditional upon Tenant giving Landlord written notice of its election to exercise such Option at least twelve (12) months prior to the end of the expiration of the then-current Lease Term. Time shall be of the essence as to Tenant's exercise of an Option. Tenant assumes full responsibility for maintaining a record of the deadlines to exercise an Option. Tenant acknowledges that it would be inequitable to require Landlord to accept any exercise of an Option after the date provided for in this Section.

6.4 Notwithstanding anything contained in this Article to the contrary, Tenant shall not have the right to exercise an Option:

(a) During the time commencing from the date Landlord delivers to Tenant a written notice that Tenant is in default with respect to Tenant's payment obligations or is in material non-monetary default under the Lease and continuing until Tenant has cured such default; or

(b) At any time after any Default as described in Article 22 of the Original Lease and continuing until Tenant cures any such Default, if such Default is susceptible to being cured; or

(c) In the event that Tenant has defaulted in the performance of its obligations under the Lease two (2) or more times during the twelve (12)-month period immediately prior to the date that Tenant intends to exercise an Option, unless Tenant has cured such defaults.

6.5 The period of time within which Tenant may exercise an Option shall not be extended or enlarged by reason of Tenant's inability to exercise such Option because of the provisions of Section 6.4 of this Amendment.

6.6 All of Tenant's rights under the provisions of an Option shall terminate and be of no further force or effect even after Tenant's due and timely exercise of such Option if, after such exercise, but prior to the commencement date of the new term, (a) Tenant fails to pay to Landlord a monetary obligation of Tenant for a period of twenty (20) days after written notice from Landlord to Tenant, (b) Tenant fails to commence to cure a default (other than a monetary default) within thirty (30) days after the date Landlord gives notice to Tenant of such default or (c) Tenant has defaulted under the Lease two (2) or more times and a service or late charge under Section 5.3 of the Original Lease has become payable for any such default, unless Tenant has cured such defaults.

6.7 Notwithstanding anything to the contrary, any and all rights of Tenant under the Existing Lease to extend the Lease Term (including, without limitation, the rights set forth in Article 4 of the Original Lease) are hereby deleted from the Existing Lease in their entirety, and shall no longer be of any further force or effect.

7. Additional Insureds. The insurance required to be carried by Tenant under the Lease shall name the Landlord Parties (as defined below) as additional insureds as respects liability arising from work or operations performed by or on behalf of Tenant, Tenant's use or occupancy of Premises, and ownership, maintenance or use of vehicles by or on behalf of

Tenant. “Landlord Parties” means Landlord, BioMed Realty, L.P., and their respective officers, employees, directors, representatives, agents, general partners, members, subsidiaries, affiliates and lenders.

8. Broker. Each of Landlord and Tenant (in such capacity, the “Indemnifying Party”) represents and warrants to the other party (in such capacity, the “Indemnified Party”) that the Indemnifying Party has not dealt with any broker or agent in the negotiation for or the obtaining of this Amendment, other than Hughes Marino (“Broker”) and agrees to reimburse, indemnify, save, defend (at the Indemnified Party’s option and with counsel reasonably acceptable to the Indemnified Party, at the Indemnifying Party’s sole cost and expense) and hold harmless the Indemnified Party and its affiliates and their respective shareholders, members, directors, officers and employees and their respective successors and assigns for, from and against any and all cost or liability for compensation claimed by any such broker or agent employed or engaged by the Indemnifying Party or claiming to have been employed or engaged by the Indemnifying Party, other than Broker. Broker is entitled to a leasing commission in connection with the making of this Amendment, and Landlord shall pay such commission to Broker pursuant to a separate agreement between Landlord and Broker.

9. No Default. Each of Landlord and Tenant represents, warrants and covenants to the other that, to the best of its knowledge, neither party is in default of any of their respective obligations under the Existing Lease and no event has occurred that, with the passage of time or the giving of notice (or both) would constitute a default by either Landlord or Tenant thereunder.

10. Notices. Tenant confirms that, notwithstanding anything in the Lease to the contrary, notices delivered to Tenant pursuant to the Lease should be sent to:

Quidel Corporation
9975 Summers Ridge Road
San Diego, California 92121

11. Effect of Amendment. Except as modified by this Amendment, the Existing Lease and all the covenants, agreements, terms, provisions and conditions thereof shall remain in full force and effect and are hereby ratified and affirmed. In the event of any conflict between the terms contained in this Amendment and the Existing Lease, the terms herein contained shall supersede and control the obligations and liabilities of the parties.

12. Successors and Assigns. Each of the covenants, conditions and agreements contained in this Amendment shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs, legatees, devisees, executors, administrators and permitted successors and assigns and sublessees. Nothing in this section shall in any way alter the provisions of the Lease restricting assignment or subletting.

13. Miscellaneous. This Amendment becomes effective only upon execution and delivery hereof by Landlord and Tenant. The captions of the paragraphs and subparagraphs in this Amendment are inserted and included solely for convenience and shall not be considered or given any effect in construing the provisions hereof. Submission of this instrument for

examination or signature by Tenant does not constitute a reservation of or option for a lease, and shall not be effective as a lease, lease amendment or otherwise until execution by and delivery to both Landlord and Tenant.

14. Authority. Each of Landlord and Tenant guarantees, warrants and represents that the individual or individuals signing this Amendment have the power, authority and legal capacity to sign this Amendment on behalf of and to bind all entities, corporations, partnerships, limited liability companies, joint venturers or other organizations and entities on whose behalf such individual or individuals have signed.

15. Counterparts; Facsimile and PDF Signatures. This Amendment may be executed in one or more counterparts, each of which, when taken together, shall constitute one and the same document. A facsimile or portable document format (PDF) signature on this Amendment shall be equivalent to, and have the same force and effect as, an original signature.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the date and year first above written.

LANDLORD:

10165 MCKELLAR COURT, L.P.,
a California limited partnership

By: BMR-10165 MCKELLAR COURT GP LLC,
its General Partner

By: /s/ KEVIN M. SIMONSEN

Name: Kevin M. Simonsen

Title: EVP, General Counsel & Secretary

TENANT:

QUIDEL CORPORATION,
a Delaware corporation

By: /s/ RANDALL J. STEWARD

Name: Randall J. Steward

Title: Chief Financial Officer

**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: July 30, 2020

/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: July 30, 2020

/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 June 30, 2020 (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: July 30, 2020

/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)