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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Mark One)

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

For the quarterly period ended September 30, 2022

OR

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

For the transition period from to

Commission File Number: 001-38118

DERMTECH, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**84-2870849**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
11099 N. Torrey Pines Road, Suite 100 La Jolla, CA	**92037**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (858) 450-4222

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, par value $0.0001 per share	DMTK	The Nasdaq Capital 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 x No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x
Emerging growth company	o		

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. o

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

As of October 28, 2022, the registrant had 30,214,705 shares of common stock, $0.0001 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

DERMTECH, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share data)
(Unaudited)

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 95,492	$ 176,882
Short-term marketable securities	53,636	48,449
Accounts receivable	6,101	3,847
Inventory	1,391	480
Prepaid expenses and other current assets	4,212	3,166
Total current assets	160,832	232,824
Property and equipment, net	4,943	4,549
Operating lease right-of-use assets	24,644	7,744
Restricted cash	3,477	3,025
Other assets	167	167
Total assets	$ 194,063	$ 248,309
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,997	$ 2,880
Accrued compensation	8,321	5,120
Accrued liabilities	3,539	1,227
Short-term deferred revenue	417	1,380
Current portion of operating lease liabilities	1,588	1,453
Current portion of finance lease obligations	124	121
Total current liabilities	16,986	12,181
Warrant liability	20	146
Long-term finance lease obligations, less current portion	77	136
Operating lease liabilities, long-term	21,992	6,148
Total liabilities	39,075	18,611
Stockholders' equity:		
Common stock, $0.0001 par value per share; 50,000,000 shares authorized as of September 30, 2022 and December 31, 2021; 30,213,206 and 29,772,922 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	3	3
Additional paid-in capital	450,904	436,183
Accumulated other comprehensive loss	(1,095)	(124)
Accumulated deficit	(294,824)	(206,364)
Total stockholders' equity	154,988	229,698
Total liabilities and stockholders' equity	$ 194,063	$ 248,309

See accompanying notes to unaudited condensed consolidated financial statements.

DERMTECH, INC.
Condensed Consolidated Statements of Operations
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenues:				
Assay revenue	$ 3,433	$ 2,954	$ 11,098	$ 8,054
Contract revenue	140	76	426	619
Total revenues	3,573	3,030	11,524	8,673
Cost of revenues:				
Cost of assay revenue	3,644	2,875	10,410	7,450
Cost of contract revenue	50	23	111	74
Total cost of revenues	3,694	2,898	10,521	7,524
Gross (loss) profit	(121)	132	1,003	1,149
Operating expenses:				
Sales and marketing	14,632	9,826	45,076	24,245
Research and development	5,702	4,426	18,955	10,271
General and administrative	8,806	6,199	26,258	17,672
Total operating expenses	29,140	20,451	90,289	52,188
Loss from operations	(29,261)	(20,319)	(89,286)	(51,039)
Other income/(expense):				
Interest income, net	485	38	700	107
Change in fair value of warrant liability	4	169	126	(1,350)
Total other income/(expense)	489	207	826	(1,243)
Net loss	$ (28,772)	$ (20,112)	$ (88,460)	$ (52,282)
Weighted average shares outstanding used in computing net loss per share, basic and diluted	30,096,261	29,639,802	29,969,435	28,599,375
Net loss per share of common stock outstanding, basic and diluted	$ (0.96)	$ (0.68)	$ (2.95)	$ (1.83)

See accompanying notes to unaudited condensed consolidated financial statements.

DERMTECH, INC.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	$ (28,772)	$ (20,112)	$ (88,460)	$ (52,282)
Unrealized net loss on available-for-sale marketable securities	(230)	(10)	(971)	(7)
Comprehensive loss	$ (29,002)	$ (20,122)	$ (89,431)	$ (52,289)

See accompanying notes to unaudited condensed consolidated financial statements.

DERMTECH, INC.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share and per share data)
(Unaudited)

	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2021	29,772,922	$ 3	$ 436,183	$ (124)	$ (206,364)	$ 229,698
Issuance of common stock from option exercises and RSU releases	109,275	—	40	—	—	40
Issuance of common stock from warrant exercises	11,101	—	12	—	—	12
Issuance of common stock from Employee Stock Purchase Plan	47,339	—	515	—	—	515
Unrealized net loss on available-for-sale marketable securities	—	—	—	(570)	—	(570)
Stock-based compensation	—	—	3,894	—	—	3,894
Net loss	—	—	—	—	(30,108)	(30,108)
Balance, March 31, 2022	29,940,637	$ 3	$ 440,644	$ (694)	$ (236,472)	$ 203,481
Issuance of common stock from RSU releases	88,591	—	—	—	—	—
Issuance of common stock from warrant exercises	9,219	—	10	—	—	10
Unrealized net loss on available-for-sale marketable securities	—	—	—	(171)	—	(171)
Stock-based compensation	—	—	4,837	—	—	4,837
Net loss	—	—	—	—	(29,580)	(29,580)
Balance, June 30, 2022	30,038,447	$ 3	$ 445,491	$ (865)	$ (266,052)	$ 178,577
Issuance of common stock from RSU releases	74,010	—	—	—	—	—
Issuance of common stock from Employee Stock Purchase Plan	100,749	—	477	—	—	477
Unrealized net loss on available-for-sale marketable securities	—	—	—	(230)	—	(230)
Stock-based compensation	—	—	4,936	—	—	4,936
Net loss	—	—	—	—	(28,772)	(28,772)
Balance, September 30, 2022	30,213,206	$ 3	$ 450,904	$ (1,095)	$ (294,824)	$ 154,988

See accompanying notes to unaudited condensed consolidated financial statements.

DERMTECH, INC.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share and per share data)
(Unaudited)

	Common stock		Additional paid-in capital	Accumulated other comprehensive income/(loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount				
Balance, December 31, 2020	20,740,413	$ 2	$ 189,868	$ (1)	$ (128,029)	$ 61,840
Issuance of common stock at $29.50 per share, net of $9.1 million in issuance costs	4,872,881	1	134,581	—	—	134,582
Issuance of common stock from option exercises and RSU releases	176,673	—	408	—	—	408
Issuance of common stock from warrant exercises	3,089,325	—	72,081	—	—	72,081
Issuance of common stock from Employee Stock Purchase Plan	39,960	—	392	—	—	392
Unrealized net gain on available-for-sale marketable securities	—	—	—	9	—	9
Stock-based compensation	—	—	2,172	—	—	2,172
Reclassification of warrant liability due to Private SPAC Warrants not held by original holder	—	—	411	—	—	411
Net loss	—	—	—	—	(15,068)	(15,068)
Balance, March 31, 2021	28,919,252	$ 3	$ 399,913	$ 8	$ (143,097)	$ 256,827
Issuance of common stock from option exercises and RSU releases	157,277	—	188	—	—	188
Issuance of common stock at a weighted average price of $46.33 through at-the market offering, net of $0.7 million in issuance costs	530,551	—	23,836	—	—	23,836
Issuance of common stock from warrant exercises	314	—	5	—	—	5
Unrealized net loss on available-for-sale marketable securities	—	—	—	(6)	—	(6)
Stock-based compensation	—	—	3,538	—	—	3,538
Reclassification of warrant liability due to Private SPAC Warrants not held by original holder	—	—	23	—	—	23
Net loss	—	—	—	—	(17,102)	(17,102)
Balance, June 30, 2021	29,607,394	$ 3	$ 427,503	$ 2	$ (160,199)	$ 267,309
Issuance of common stock from option exercises and RSU releases	76,768	—	81	—	—	81
Issuance of common stock from warrant exercises	14,881	—	343	—	—	343
Issuance of common stock from Employee Stock Purchase Plan	18,155	—	574	—	—	574
Unrealized net loss on available-for-sale marketable securities	—	—	—	(10)	—	(10)
Stock-based compensation	—	—	3,736	—	—	3,736
Net loss	—	—	—	—	(20,112)	(20,112)
Balance, September 30, 2021	29,717,198	$ 3	$ 432,237	$ (8)	$ (180,311)	$ 251,921

See accompanying notes to unaudited condensed consolidated financial statements.

DERMTECH, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (88,460)	$ (52,282)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,187	654
Change in fair value of warrant liability	(126)	1,350
Amortization of operating lease right-of-use assets	1,788	909
Stock-based compensation	13,667	9,446
Amortization of premiums, net of accretion of discounts on marketable securities	328	463
Loss on disposal of equipment	350	13
Changes in operating assets and liabilities:		
Accounts receivable	(2,254)	(1,339)
Inventory	(911)	(320)
Prepaid expenses and other current assets	(1,046)	(104)
Operating lease liabilities	(2,709)	(1,130)
Accounts payable, accrued liabilities and deferred revenue	955	1,525
Accrued compensation	3,201	1,389
Net cash used in operating activities	(74,030)	(39,426)
Cash flows from investing activities:		
Purchases of marketable securities	(26,420)	(25,150)
Sales of marketable securities	—	350
Maturities of marketable securities	19,934	18,475
Purchases of property and equipment	(1,372)	(1,664)
Net cash used in investing activities	(7,858)	(7,989)
Cash flows from financing activities:		
Proceeds from issuance of common stock in connection with public follow-on offering, net	—	134,582
Proceeds from issuance of common stock in connection with at-the-market offering, net	—	23,836
Proceeds from exercise of common stock warrants	22	70,271
Proceeds from RSU releases (par value only) and the exercise of stock options	40	677
Proceeds from contributions to the employee stock purchase plan	992	966
Principal repayments of finance lease obligations	(104)	(80)
Net cash provided by financing activities	950	230,252
Net (decrease)/increase in cash, cash equivalents and restricted cash	(80,938)	182,837
Cash, cash equivalents and restricted cash, beginning of period	179,907	24,248
Cash, cash equivalents and restricted cash, end of period	$ 98,969	$ 207,085
Reconciliation of cash, cash equivalents and restricted cash, end of period:		
Cash and cash equivalents	$ 95,492	$ 204,061
Restricted cash	3,477	3,024
Total cash, cash equivalents and restricted cash	$ 98,969	$ 207,085
Supplemental cash flow information:		
Cash paid for interest on finance lease obligations	$ 10	$ 13
Supplemental disclosure of noncash investing and financing activities:		
Purchases of property and equipment recorded in accounts payable	$ 511	$ 462
Reclassification of warrant liability due to Private SPAC Warrants not held by original holder	$ —	$ 434
Cashless exercise of common stock warrants	$ —	$ 2,158
Right-of-use assets obtained in exchange for lease obligations	$ 18,688	$ 9,071
Property and equipment acquired under finance leases	$ 48	$ 105
Change in net unrealized losses on available-for-sale marketable securities	$ (971)	$ (7)

See accompanying notes to unaudited condensed consolidated financial statements.

DERMTECH, INC.
Notes to Unaudited Condensed Consolidated Financial Statements

1. The Company and a Summary of its Significant Accounting Policies

(a) Nature of Operations

On August 29, 2019, DermTech, Inc., formerly known as Constellation Alpha Capital Corp, (the "Company"), and DermTech Operations, Inc., formerly known as DermTech, Inc., ("DermTech Operations"), consummated the transactions contemplated by the Agreement and Plan of Merger, dated as of May 29, 2019, by and among the Company, DT Merger Sub, Inc., a wholly owned subsidiary of the Company ("Merger Sub"), and DermTech Operations. The Company refers to this agreement, as amended by that certain First Amendment to Agreement and Plan of Merger dated as of August 1, 2019, as the Merger Agreement. Pursuant to the Merger Agreement, Merger Sub merged with and into DermTech Operations, with DermTech Operations surviving as a wholly-owned subsidiary of the Company. The Company refers to this transaction as the Business Combination. In connection with and two days prior to the completion of the Business Combination, the Company domesticated from the British Virgin Islands to Delaware. DermTech Operations changed its name from DermTech, Inc. to DermTech Operations, Inc. shortly before the completion of the Business Combination. On August 29, 2019, immediately following the completion of the Business Combination, the Company changed its name from Constellation Alpha Capital Corp. to DermTech, Inc., and then effected a one-for-two reverse stock split of its common stock.

The Company is a molecular diagnostic company developing and marketing its Clinical Laboratory Improvement Amendments of 1988 ("CLIA") laboratory services including genomic tests to facilitate the diagnosis of dermatologic conditions including melanoma. The Company has developed a proprietary, non-invasive technique for sampling the surface layers of the skin using an adhesive patch called the DermTech Smart Sticker™ (the "Smart Sticker") to collect biological information for commercial applications in the medical diagnostic field.

The ongoing COVID-19 pandemic has affected many segments of the global economy, including the cancer screening and diagnostics industry. The Company is considered an essential business due to the importance of early melanoma detection, which has allowed the Company's CLIA laboratory to remain fully operational. The Company implemented additional safety measures in accordance with Centers for Disease Control and Prevention, Occupational Safety and Health Administration and other guidance within its CLIA laboratory operations. Additionally, and during this time, the Company transitioned administrative functions to predominantly remote work. The pandemic reduced patient access to clinician offices for in-person testing and reduced access by the Company's sales force for in-office sales calls, which negatively impacted the volume of billable samples. The level and nature of the disruption caused by COVID-19 is unpredictable, may be cyclical, and long-lasting and may again in the future, adversely affect the Company's operating results.

(b) Basis of Presentation

The condensed consolidated financial statements include the accounts of DermTech, Inc. and its subsidiaries. All intercompany balances and transactions among the consolidated entity have been eliminated in consolidation. These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Securities and Exchange Commission ("SEC"), Regulation S-X. Accordingly, these unaudited condensed consolidated financial statements and accompanying notes do not include all the information and disclosures required by U.S. GAAP for complete financial statements and should be read together with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021. In the opinion of management, all adjustments, which include only normal recurring adjustments considered necessary for a fair presentation, have been included.

The accompanying unaudited condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the unaudited condensed consolidated financial statements. As of September 30, 2022, there have been no material changes in the Company's significant accounting policies from those that were disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

(c) Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the amounts of revenues and expenses reported during the period. On an ongoing basis, management evaluates these estimates and judgments, including but not limited to those related to assay revenue, stock-based compensation, short-term marketable securities, accounts receivable, accrued bonus, warrant liability, right-of-use ("ROU") assets and the realization of deferred tax assets. Actual results may differ from those estimates.

(d) Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with remaining maturities of three months or less when purchased to be cash equivalents. The Company maintains its cash balances at banks and financial institutions. The balances are insured up to the Federal Deposit Insurance Corporation legal limit. The Company maintains cash balances that have in the past and may, at times, exceed this insured limit.

Restricted cash consists of cash deposited with a financial institution as collateral for the Company's letters of credit for its facility leases. Restricted cash is classified as noncurrent based on the terms of the underlying lease arrangement.

(e) Property and Equipment, Net

Property and equipment, net is recorded at cost less accumulated depreciation. Property and equipment consists mainly of assets such as leasehold improvements, office, computer and laboratory equipment, including laboratory equipment acquired under finance lease arrangements. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from two to eleven years. Leasehold improvements are depreciated over the shorter of the remaining term of the lease or the useful life of the asset. The Company recorded depreciation expense of $0.4 million and $0.3 million for the three months ended September 30, 2022 and 2021, respectively, which includes amortization of laboratory equipment acquired under finance leases (previously referred to as "capital leases") of $21,000 and $17,000 for the three months ended September 30, 2022 and 2021, respectively. The Company recorded depreciation expense of $1.2 million and $0.7 million for the nine months ended September 30, 2022 and 2021, respectively, which includes amortization of laboratory equipment acquired under finance leases of $0.1 million and $0.1 million for the nine months ended September 30, 2022 and 2021, respectively.

Amortization of assets that are recorded under finance leases in depreciation expense is included in cost of revenues on the condensed consolidated statements of operations. Gross assets recorded under finance leases were $0.4 million as of September 30, 2022 and December 31, 2021. Accumulated amortization associated with finance leases was $0.1 million as of September 30, 2022 and December 31, 2021. Maintenance and repairs are expensed as incurred, and material improvements are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the balance sheet and any resulting gain or loss is reflected in the condensed consolidated statements of operations in the period realized. Loss of disposal on equipment was $0.1 million for the three months ended September 30, 2022 and $8,000 for the three months ended September 30, 2021. Loss on disposal of equipment was $0.4 million and $13,000 for the nine months ended September 30, 2022 and 2021, respectively. The Company assesses its long-lived assets, consisting primarily of property and equipment, for impairment when material events or changes in circumstances indicate that the carrying value may not be recoverable. There were no impairment losses for the three or nine months ended September 30, 2022 and 2021.

(f) Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. As of September 30, 2022, the Company maintained $64.6 million in a sweep account, which maintains cash balances throughout various interest-bearing bank accounts under the $250,000 insurance limit provided by the Federal Deposit Insurance Corporation for one federally insured financial institution. Approximately $0.3 million was held in excess of the Federal Deposit Insurance Corporation insured limit as of September 30, 2022. The Company has not experienced any losses in such accounts.

(g) Revenue Recognition

The Company's revenue is generated from two revenue streams: contract revenue and assay revenue. The Company accounts for revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"). The core principle of ASC 606 is that the Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The ASC 606 revenue recognition model consists of the following five steps: (1) identify the contracts with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation.

The Company recognizes revenue from its assay and contract services in accordance with the core principles and key aspects considered by the Company. These considerations are described in detail below, first for Assay Revenue and then for Contract Revenue.

Assay Revenue

The Company generates revenues from its Pigmented Lesion Assay ("PLA") and PLA*plus* (now referred to as the DermTech Melanoma Test or "DMT" which may consist at the option of the ordering clinician of either (i) the PLA or (ii) the PLA and PLA*plus*), which assists a clinician's diagnosis of melanoma in patients. The Company provides prescribing clinicians with its Smart Sticker to perform non-invasive skin biopsies of clinically ambiguous pigmented skin lesions on patients. The Company also offers clinicians a telemedicine solution where they can request the Smart Sticker collection kit be sent to the patient's home for a clinician-guided remote collection on ambiguous pigmented skin lesions. A patient can also initiate the process by downloading the Company's telemedicine app, DermTech Connect, which uses store-and-forward technology to allow the patient to take a picture of a suspicious lesion with their phone and have the picture reviewed by an independent clinician who is subscribing to the DermTech Connect platform to assess the suspicious lesion, and if medically necessary, order a DMT where a collection kit would be sent to the patient's home. The DermTech Connect app and telemedicine service were initially beta tested in Florida and is currently available in most states where permitted by law and applicable standards of practice guidelines. Once the sample is collected by the patient via the telemedicine solution or by a healthcare clinician in person, it is returned to the Company's CLIA laboratory for analysis. The patient's ribonucleic acid ("RNA") and deoxyribonucleic acid ("DNA") are extracted from the Smart Sticker and analyzed using gene expression and sequencing technology to determine if the pigmented skin lesion contains certain genomic features indicative of melanoma. Upon completion of the gene expression analysis, a final report is drafted and provided to the clinician detailing the test results for the pigmented skin lesion indicating whether the sample collected is indicative of melanoma or not.

The Company periodically updates its estimate of the variable consideration recognized for previously delivered performance obligations. These updates resulted in a decrease of $0.5 million and $0.5 million of revenue reported for the three and nine months ended September 30, 2022, respectively, and an additional $18,000 and $0.1 million of revenue reported for the three and nine months ended September 30, 2021, respectively. These amounts included (i) adjustments for actual collections versus estimated variable consideration as of the beginning of the reporting period and (ii) cash collections and the related recognition of revenue in the current period for tests delivered in prior periods due to the release of the constraint on variable consideration, offset by (iii) reductions in revenue for the accrual for reimbursement claims and settlements.

Contract Revenue

Contract revenue is generated from the sale of laboratory services and Smart Stickers to third-party companies through contract research agreements. Revenues are generated from providing genomic services to facilitate the development of drugs designed to treat dermatologic conditions. The provision of services may include sample collection using the Smart Sticker, assay development for research partners, patient segmentation and stratification, extraction, isolation, expression, amplification and detection of RNA, DNA, protein and microbiome, including data analysis and reporting.

(a) Disaggregation of Revenue

The following table presents the Company's revenues disaggregated by revenue source during the three and nine months ended September 30, 2022 and 2021 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Assay Revenue				
DermTech Melanoma Test	$ 3,433	$ 2,954	$ 11,098	$ 8,054
Contract Revenue				
Adhesive patch kits	22	14	126	329
RNA extractions	94	19	204	158
Project management fees	24	43	96	132
Total revenues	$ 3,573	$ 3,030	$ 11,524	$ 8,673

The following table sets forth the percentages of total revenue or accounts receivable for the Company's third-party payors that represent 10% or more of the respective amounts for the periods shown:

	Total Revenues				Accounts Receivable	
	Three Months Ended September 30,		Nine Months Ended September 30,			
	2022	2021	2022	2021	As of September 30, 2022	As of December 31, 2021
Assay Revenue						
Payor A	46 %	36 %	41 %	35 %	20 %	23 %
Payor B	*	*	*	*	15 %	15 %

* *Less than 10%*

There were no other third-party payors or pharmaceutical customers that individually accounted for more than 10% of the Company's total revenue or accounts receivable for the periods shown in the table above.

(b) Deferred Revenue and Remaining Performance Obligations

The timing of revenue recognition, billings and cash collections results in billed accounts receivable and deferred revenue on the condensed consolidated balance sheets.

In a majority of historical agreements that produced contract revenue, the Company received a substantial up-front payment and additional payments upon the achievement of various milestones over the life of the agreement. This results in deferred revenue and is relieved upon delivery of the applicable Smart Stickers or RNA extraction results. Changes in accounts receivable and deferred revenue were not materially impacted by any other factors.

The Company records a deferred revenue liability if a customer pays consideration before the Company transfers a good or service to the customer. Deferred revenue primarily represents upfront milestone payments, for which consideration is received prior to when goods/services are completed or delivered. Upfront fees that are estimated to be recognized as revenue more than one year from the date of collection are classified as long-term deferred revenue. Short-term deferred revenue as of September 30, 2022 and December 31, 2021 was $0.4 million and $1.4 million, respectively. As of September 30, 2022 we reclassified $0.9 million of short-term deferred revenue to accrued liabilities for a customer refund obligation in connection with cancellation of future services.

Remaining performance obligations include deferred revenue and amounts the Company expects to receive for goods and services that have not yet been delivered or provided under existing agreements. For agreements that have an original duration of one year or less, the Company has elected the practical expedient applicable to such agreements and does not disclose the remaining performance obligations at the end of each reporting period. As of September 30, 2022, the estimated revenue expected to be recognized in future periods related to performance obligations that are unsatisfied for executed agreements with an original duration of one year or more was immaterial. The Company expects to recognize revenue on the majority of these remaining performance obligations over the next two to three years.

(h) Accounts Receivable

Assay Accounts Receivable

Due to the nature of the Company's assay revenue, it can take a significant amount of time to collect upon billed tests. The Company prepares an analysis on reimbursement collections and data obtained for each financial reporting period to determine the amount of receivables to be recorded relating to tests performed in the applicable period. The Company generally does not perform evaluations of customers' financial condition and generally does not require collateral. Accounts receivables are written off when all efforts to collect the balance have been exhausted. Adjustments for implicit price concessions attributable to variable consideration are incorporated into the measurement of the accounts receivable balances. The Company recorded $5.9 million and $3.6 million of gross assay accounts receivable as of September 30, 2022 and December 31, 2021, respectively.

Contract Accounts Receivable

Contract accounts receivable are recorded at the net invoice value and are not interest bearing. The Company reserves specific receivables if collectability is no longer reasonably assured, and as of September 30, 2022, the Company did not maintain any reserves over contract receivables as they relate to large established credit worthy customers. The Company re-evaluates such reserves on a regular basis and adjusts its reserves as needed. Once a receivable is deemed to be uncollectible, such balance is charged against the reserve. The Company recorded $0.2 million and $0.2 million of contract accounts receivable as of September 30, 2022 and December 31, 2021, respectively.

(i) Net Loss Per Share

Basic and diluted net loss per share of common stock is determined by dividing net loss applicable to holders of common stock by the weighted average number of shares of common stock outstanding during the period. Because there is a net loss attributable to holders of common stock during the three and nine months ended September 30, 2022 and 2021, the outstanding common stock warrants, stock options, and restricted stock units ("RSUs") have been excluded from the calculation of diluted loss per share of common stock because their effect would be anti-dilutive. Therefore, the weighted average shares used to calculate both basic and diluted loss per share are the same. Diluted net loss per share of common stock for the three and nine months ended September 30, 2022 excludes the effect of anti-dilutive equity instruments including 714,261 shares of common stock issuable upon the exercise of outstanding common stock warrants and 5,024,323 shares of common stock issuable upon the exercise of stock options and release of RSUs. Diluted net loss per share of common stock for the three and nine months ended September 30, 2021 excludes the effect of anti-dilutive equity instruments including 734,581 shares of common stock then issuable upon the exercise of outstanding warrants and 2,564,059 shares of common stock then issuable upon the exercise of stock options and release of RSUs.

(j) Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The Company uses a three-tier fair value hierarchy to prioritize the inputs used in the Company's fair value measurements. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following table provides a summary of the assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2022 (in thousands):

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 30,529	$ —	$ —	$ 30,529
Restricted cash	3,477	—	—	3,477
Marketable securities, available for sale:				
Corporate debt securities	—	14,938	—	14,938
Municipal debt securities	—	2,320	—	2,320
U.S. government debt securities	—	36,378	—	36,378
Total marketable securities, available for sale	—	53,636	—	53,636
Total assets measured at fair value on a recurring basis	$ 34,006	$ 53,636	$ —	$ 87,642
Liabilities:				
Warrant liability	$ —	$ —	$ 20	$ 20
Total liabilities measured at fair value on a recurring basis	$ —	$ —	$ 20	$ 20

The following table provides a summary of the assets and liabilities that are measured at fair value on a recurring basis as of December 31, 2021 (in thousands):

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents	$ 16,380	$ —	$ —	$ 16,380
Restricted cash	3,025	—	—	3,025
Marketable securities, available for sale:				
Corporate debt	—	15,352	—	15,352
Municipal debt securities	—	7,412	—	7,412
U.S. government debt securities	—	25,685	—	25,685
Total marketable securities, available for sale	—	48,449	—	48,449
Total assets measured at fair value on a recurring basis	$ 19,405	$ 48,449	$ —	$ 67,854
Liabilities:				
Warrant liability	$ —	$ —	$ 146	$ 146
Total liabilities measured at fair value on a recurring basis	$ —	$ —	$ 146	$ 146

The Company's marketable debt securities are classified as available-for-sale securities based on management's intentions and are at Level 2 of the fair value hierarchy, as these investment securities are valued based upon quoted prices for identical or similar instruments in markets that are not active. The Company has classified marketable securities with original maturities of greater than one year as short-term investments based upon the Company's ability to use all of those marketable securities to satisfy the liquidity needs of the Company's current operations.

The fair value of the Private SPAC Warrants (as defined below) was determined using the Black-Scholes-Merton valuation model and included an unobservable input: expected volatility. Expected volatility is considered by the Company to be an unobservable input and is calculated using a weighted average of historical volatilities of a combination of the Company and peer companies, due to the lack of sufficient historical data of the Company's own stock price. The model also incorporated several observable assumptions at each valuation date including: the price of the Company's common stock on the date of valuation, the remaining contractual term of the warrant and the risk-free interest rate over the remaining term.

The following assumptions were used to calculate the fair value of the Company's warrant liability using the Black-Scholes-Merton valuation model:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Assumed risk-free interest rate	4.22%	0.53%	2.37% - 4.22%	0.46% - 0.64%
Assumed volatility	118.13%	89.77%	92.77% - 118.13%	85.85% - 89.77%
Expected term	1.92 years	2.92 years	1.92 - 2.42 years	2.92 - 3.42 years
Expected dividend yield	—	—	—	—

The following table summarizes the changes in the fair value of the Company's Level 3 liabilities (in thousands):

Balance as of December 31, 2021	$	146
Change in fair value of warrant liability		(17)
Balance as of March 31, 2022		129
Change in fair value of warrant liability		(105)
Balance as of June 30, 2022	$	24
Change in fair value of warrant liability		(4)
Balance as of September 30, 2022	$	20

As of September 30, 2022 and December 31, 2021, the Company maintains letters of credit of $3.5 million and $3.0 million, respectively, related to its lease arrangements, which are secured by money market accounts in accordance with certain of its lease agreements. The amounts are recorded at fair value using Level 1 inputs and included as restricted cash in the condensed consolidated balance sheets.

The Company believes the carrying amount of cash and cash equivalents, accounts payable and accrued expenses approximate their estimated fair values due to the short-term nature of these accounts.

(k) Accounting Pronouncements Issued But Not Yet Effective

In June 2022, the Financial Accounting Standards Board issued ASU No. 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* ("ASU 2022-03"). Under the guidance of ASU 2022-03, a contractual restriction on the sale of an equity security is not considered in measuring the security's fair value. ASU 2022-03 also requires certain disclosures for equity securities that are subject to contractual restrictions. For public business entities, the provisions of ASU 2022-03 are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company is still evaluating the impact of this pronouncement on the consolidated financial statements.

The Company does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material impact on its condensed consolidated financial statements or disclosures.

2. Balance Sheet Details

Short-Term Marketable Securities

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of debt securities classified as available-for-sale securities by major security type and class of security as of September 30, 2022 were as follows (in thousands):

	September 30, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Short-term marketable securities, available-for-sale:				
Corporate debt securities	$ 15,259	$ —	$ (321)	$ 14,938
Municipal debt securities	2,339	—	(19)	2,320
U.S. government debt securities	37,133	3	(758)	36,378
Total short-term marketable securities, available-for-sale	$ 54,731	$ 3	$ (1,098)	$ 53,636

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of debt securities classified as available-for-sale securities by major security type and class of security as of December 31, 2021 were as follows (in thousands):

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Short-term marketable securities, available-for-sale:				
Corporate debt securities	$ 15,385	$ —	$ (33)	$ 15,352
Municipal debt securities	7,417	—	(5)	7,412
U.S. government debt securities	25,771	1	(87)	25,685
Total short-term marketable securities, available-for-sale	$ 48,573	$ 1	$ (125)	$ 48,449

As of September 30, 2022, the estimated market value of debt securities with contractual maturities of less than twelve months was $38.3 million; the remaining debt securities that the Company held at that date had an estimated market value of $15.3 million and contractual maturities of up to 21 months. As of December 31, 2021, the estimated market value of debt securities with contractual maturities of less than twelve months was $21.2 million; the remaining debt securities that the Company held at that date had an estimated market value of $27.2 million and contractual maturities of up to 23 months.

The Company evaluates securities with unrealized losses to determine whether such losses, if any, are due to credit-related factors. It was determined that no credit losses existed as of September 30, 2022 or December 31, 2021, because the change in market value for those securities in an unrealized loss position has resulted from fluctuating interest rates rather than a deterioration of the credit worthiness of the issuers. Gross realized gains and losses on the Company's debt securities for the three and nine months ended September 30, 2022 and 2021 were not significant.

Prepaid Expenses and Property and Equipment, Net

Condensed consolidated balance sheet details are as follows (in thousands):

	September 30, 2022	December 31, 2021
Prepaid expenses and other current assets:		
Prepaid insurance	$ 1,547	$ 1,801
Prepaid trade shows	693	440
Prepaid software fees	1,038	551
Prepaid employee compensation	291	238
Other current assets	643	136
Total prepaid expenses and other current assets	$ 4,212	$ 3,166
Property and equipment, gross:		
Laboratory equipment	$ 4,744	$ 4,805
Computer equipment	356	171
Furniture and fixtures	807	124
Leasehold improvements	1,009	1,074
Construction-in-progress	585	—
Total property and equipment, gross	7,501	6,174
Less accumulated depreciation	(2,558)	(1,625)
Total property and equipment, net	$ 4,943	$ 4,549

Accrued Compensation and Accrued Liabilities

Condensed consolidated balance sheet details are as follows (in thousands):

	September 30, 2022	December 31, 2021
Accrued compensation:		
Accrued paid time off	$ 1,790	$ 1,245
Accrued wages, bonus and other	6,531	3,875
Total accrued compensation	$ 8,321	$ 5,120
Accrued liabilities:		
Accrued consulting services	$ 1,173	$ 775
Customer refund liability	926	—
Other accrued expenses	1,440	452
Total accrued liabilities	$ 3,539	$ 1,227

3. Stockholders' Equity

(a) Classes of Stock

The Company's amended and restated certificate of incorporation authorizes it to issue 50,000,000 shares of common stock and 5,000,000 shares of preferred stock. Both classes of stock have a par value of $0.0001 per share.

(b) At-The-Market Offering

On November 10, 2020, the Company entered into a sales agreement (the “November 2020 Sales Agreement”) with Cowen and Company, LLC (“Cowen”) relating to the sale of shares of the Company’s common stock from time to time with an aggregate offering price of up to $50.0 million. During 2020, the Company issued an aggregate of 951,792 shares of common stock pursuant to the November 2020 Sales Agreement at a weighted average purchase price of $20.97 resulting in aggregate gross proceeds of approximately $20.0 million, reduced by $0.9 million in issuance costs, resulting in net proceeds to the Company of approximately $19.1 million. For the nine months ended September 30, 2022, the Company did not issue any shares pursuant to the November 2020 Sales Agreement. For the year ended December 31, 2021, the Company issued an aggregate of 530,551 shares of common stock pursuant to the November 2020 Sales Agreement at a weighted average purchase price of $46.33 resulting in aggregate gross proceeds of approximately $24.6 million, reduced by $0.7 million in issuance costs, resulting in net proceeds to the Company of approximately $23.8 million.

On August 8, 2022, the Company entered into a second sales agreement (the “August 2022 Sales Agreement”) with Cowen relating to the sale of shares of the Company’s common stock from time to time with an aggregate offering price of up to $75.0 million under a second at-the-market offering program. For the nine months ended September 30, 2022, the Company did not issue any shares pursuant to the August 2022 Sales Agreement.

(c) 2021 Underwritten Public Offering

On January 6, 2021, the Company entered into an underwriting agreement with Cowen and William Blair & Company, L.L.C. as representatives of the several underwriters (the "Underwriters"). The Company agreed to issue and sell up to 4,237,288 shares of its common stock including up to 635,593 shares that could be purchased by the Underwriters pursuant to a 30-day option granted to the Underwriters by the Company. On January 11, 2021, the Company closed the underwritten public offering of 4,872,881 shares of its common stock, which included the exercise in full by the Underwriters of their option to purchase up to 635,593 additional shares, at a price to the public of $29.50 per share. The Company received aggregate gross proceeds of approximately $143.7 million, and net proceeds of approximately $134.6 million, after deducting underwriting discounts and commissions and other offering expenses.

(d) Warrants

SPAC Warrants

The Company previously issued a total of 14,936,250 SPAC warrants (the "SPAC Warrants") to purchase common stock in public and private placement offerings which were consummated on June 23, 2017. As part of the public offering, the Company issued 14,375,000 warrants (the "Public SPAC Warrants") and as part of the private placement offering, the Company issued 561,250 warrants (the "Private SPAC Warrants"). The SPAC Warrants have a five-year life from the date the Business Combination was consummated and every four SPAC Warrants entitle the holder to purchase one whole share of common stock at an exercise price of $23.00 per whole share.

The Private SPAC Warrants are identical to the Public SPAC Warrants, but they (i) are exercisable either for cash or on a cashless basis at the holder’s option, (ii) are not redeemable by the Company as long as such warrants are held by the initial purchasers or their affiliates and permitted transferees, and (iii) may be subject to the limitations on exercise as specified in the warrant agreement. As a result of these difference in features between the Public SPAC Warrants and Private SPAC Warrants, the Company concluded that the Private SPAC Warrants should be classified as a liability, if still held by the original Private SPAC Warrant holder, and marked to market each financial reporting period in the Company’s statement of operations.

Between January 1, 2021 and September 30, 2021, a total of 12,120,397 SPAC Warrants were exercised, resulting in the Company’s issuance of 3,030,092 shares of common stock and the receipt of $69.7 million in gross proceeds.

Outstanding SPAC Warrants totaled 2,815,853 as of September 30, 2022 and December 31, 2021. Private SPAC Warrants that were still owned by the original holder totaled 80,350 as of September 30, 2022 and December 31, 2021.

Placement Agent Warrants

In connection with several of DermTech Operations' financings that took place between 2015 and 2018, DermTech Operations engaged a registered placement agent to assist in marketing and selling of common and preferred units. From 2015 to 2016, DermTech Operations issued 168,522 seven-year warrants to purchase one share of common stock each at an exercise price of $8.68 per share. From 2016 to 2018, DermTech Operations issued 72,658 seven-year warrants to purchase one share of common stock at an exercise price of $9.54 per share. In 2020, the Company issued 15,724 seven-year warrants to purchase one share of common stock at an exercise price of $9.54 per share in connection with the Company's 2018 bridge note financing. Outstanding placement agent warrants totaled 10,039 as of September 30, 2022 and December 31, 2021.

Management Warrants

Warrants to purchase shares of DermTech Operations' common stock were issued to executive officers of DermTech Operations in lieu of issuing certain stock options (the "Management Warrants"). The Management Warrants were assumed by the Company in connection with the Business Combination. The Management Warrants have a ten-year life and are exercisable shares of the Company's common stock at $1.08 per share. For the nine months ended September 30, 2022, the Company issued 20,320 shares of common stock pursuant to the exercise of Management Warrants. The Management Warrants vested monthly over a four-year period. Outstanding Management Warrants totaled zero and 20,320 as of September 30, 2022 and December 31, 2021, respectively.

(e) Stock-Based Compensation

Stock-based compensation expense for employee options, RSUs, the purchase rights issued under the 2020 ESPP, and consultant options was recorded in the condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	$ 353	$ 299	$ 986	$ 709
Sales and marketing	1,294	1,098	3,822	2,580
Research and development	1,074	644	2,899	1,473
General and administrative	2,215	1,695	5,960	4,684
Total stock-based compensation	$ 4,936	$ 3,736	$ 13,667	$ 9,446

The total compensation cost related to non-vested awards not yet recognized as of September 30, 2022 was $49.1 million, which is expected to be recognized over a weighted average term of 2.28 years.

Equity Incentive Plans

In May 2020, the Company adopted the 2020 Equity Incentive Plan (the "2020 Plan"), which replaced our Amended and Restated 2010 Stock Plan and provides for the granting of incentive and non-qualified stock options, restricted stock and stock-based awards to employees, directors and consultants providing services to the Company. Under the 2020 Plan, incentive and non-qualified stock options may be granted at not less than 100% of the fair market value of the Company's common stock on the date of grant. If an incentive stock option is granted to an individual who owns more than 10% of the combined voting power of all classes of the Company's capital stock, the exercise price may not be less than 110% of the fair market value of the Company's common stock on the date of grant and the term of the option may not be longer than five years.

The 2020 Plan authorizes the Company to issue up to 1,900,000 shares of the Company's common stock pursuant to awards granted under the 2020 Plan, plus the number of shares underlying any stock option and other stock-based awards previously granted under the 2010 Plan that are forfeited, canceled, or terminated (other than by exercise) on or after May 26, 2020; provided that no more than 1,400,000 shares may be added to the 2020 Plan pursuant to such forfeitures, cancellations and terminations. In addition, the number of shares available for issuance under the 2020 Plan will automatically increase on the first day of each fiscal year beginning in fiscal year 2021 and ending on the second day of fiscal year 2025, by an amount equal to the smaller of (i) 3.5% of the number of shares of common stock outstanding on such date and (ii) an amount determined by the administrator of the 2020 Plan. The 2020 Plan will expire on April 12, 2030 or an earlier date approved by a vote of the Company's stockholders or board of

directors. The contractual term of options granted under the 2020 Plan is not more than ten years. Vesting provisions vary based on the specific terms of the individual option awards.

In March 2022, the Company's board of directors adopted the 2022 Inducement Equity Incentive Plan (as amended, the "Inducement Plan"), pursuant to which the Company reserved 950,000 shares of its common stock (subject to customary adjustments in the event of a change in capital structure of the Company) for the issuance of equity awards under the Inducement Plan. In September 2022, the Company amended and restated the Inducement Plan to reserve an additional 1,000,000 shares of its common stock. The Inducement Plan and its amendment were approved by the Company's board of directors without stockholder approval pursuant to Rule 5635(c)(4) of the Nasdaq Listing Rules. The Inducement Plan may be used exclusively for grants of awards to individuals who were not previously employees or directors of the Company, or following a bona fide period of non-employment, as an inducement material to the individual's entry into employment with the Company within the meaning of Rule 5635(c)(4) of the Nasdaq Listing Rules.

As of September 30, 2022, 1,002,843 shares remained available for future grant under our equity incentive plans.

Employee Stock Purchase Plan

In May 2020, the Company adopted the 2020 Employee Stock Purchase Plan (as amended, the "2020 ESPP"), which allows for full-time and certain part-time employees of the Company to purchase shares of common stock at a discount to fair market value. The 2020 ESPP authorizes the Company to issue up to 400,000 shares of the Company's common stock. In addition, the number of shares available for issuance under the 2020 ESPP will automatically increase on the first day of each of the Company's fiscal years beginning in 2021 and ending on the first day of 2030, in an amount equal to the lesser of (i) 300,000 shares, (ii) 1% of the shares of Company common stock outstanding on the last day of the immediately preceding fiscal year, or (iii) such lesser number of shares as is determined by the board of directors of the Company, subject to adjustment upon changes in capitalization of the Company.

The 2020 ESPP permits our eligible employees to purchase discounted shares of our common stock at semi-annual intervals through periodic payroll deductions. Shares are purchased at a price equal to 85% of the lower of: (i) the fair market value of the Company's common stock on the first business day of an offering period or (ii) the fair market value of the Company's common stock on the last business day of an offering period. A new offering period commences every year on approximately March 1 and September 1. At the end of each offering period, the accumulated contributions are used to purchase shares of the Company's common stock. The last business day of each purchase period is referred to as the purchase date. Purchase dates are every six months on February 28 or February 29 and August 31.

In August 2022, the Company's board of directors approved an amendment to the 2020 ESPP. Effective September 1, 2022, each offering period is twenty-four months and consists of four six-month purchase periods during which payroll deductions of the participants are accumulated under the 2020 ESPP. Prior to September 1, 2022, each offering period was six months.

On February 28, 2021 and August 31, 2021, the Company issued 39,960 and 18,155 shares of its common stock, respectively, pursuant to scheduled purchases under the 2020 ESPP. As of December 31, 2021, 549,289 shares of common stock were reserved for future issuance under the 2020 ESPP. On January 1, 2022, an additional 297,729 shares of common stock became available under the 2020 ESPP pursuant to an automatic annual increase. On February 28, 2022 and August 31, 2022, the Company issued 47,339 and 100,749 shares of its common stock, respectively, pursuant to scheduled purchases under the 2020 ESPP. As of September 30, 2022, 698,930 shares of common stock remained available for future grants under the 2020 ESPP.

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following as of September 30, 2022 and December 31, 2021 (in thousands):

	September 30, 2022	December 31, 2021
Warrants to purchase common stock	10	31
SPAC Warrants to purchase common stock*	704	704
Stock options issued and outstanding	1,732	1,721
RSUs issued and outstanding	3,292	983
Authorized for future equity grants	1,003	603
Authorized for future ESPP purchases	699	549
Total common stock reserved for future issuance	7,440	4,591

*Four SPAC Warrants are needed to purchase one share of common stock. The numbers presented above reflect the amount of shares of common stock underlying SPAC Warrants.

4. Leases, Commitments and Contingencies

Adoption of ASC 842

In the third quarter of 2021, the Company adopted ASU 2016-02, and ASC Topic 842, Leases ("ASC 842") using the modified retrospective approach with an effective date of January 1, 2021.

Finance Leases

The Company leases certain laboratory equipment from various third parties, through equipment finance leases (previously referred to as "capital leases"). These leases either include a bargain purchase option or the terms of the leases are at least 75 percent of the useful lives of the assets and are therefore classified as finance leases. These leases are capitalized in property and equipment, net on the accompanying condensed consolidated balance sheets. Initial asset values and finance lease obligations are based on the present value of future minimum lease payments. Gross assets recorded under finance leases were $0.4 million and $0.4 million as of September 30, 2022 and December 31, 2021, respectively. Accumulated amortization associated with finance leases was $0.1 million and $0.1 million as of September 30, 2022 and December 31, 2021, respectively. Total finance lease interest expense was approximately $3,000 and $5,000 for the three months ended September 30, 2022 and 2021, respectively, and $10,000 and $13,000 for the nine months ended September 30, 2022 and 2021, respectively, and is included within interest income, net on the condensed consolidated statements of operations. Long-term finance lease obligations are as follows (in thousands):

	September 30, 2022	December 31, 2021
Gross finance lease obligations	$ 215	$ 274
Less imputed interest	(14)	(17)
Present value of net minimum lease payments	201	257
Less current portion of finance lease obligations	(124)	(121)
Total long-term finance lease obligations	$ 77	$ 136

Operating Leases

Del Mar Heights Lease

On July 1, 2021, the Company entered into an Office Lease (the “Del Mar Lease”) with Kilroy Realty, L.P. (the “Landlord”), with respect to an aggregate of 95,997 rentable square feet consisting of the entire building located at 12340 El Camino Real, San Diego, California 92130 (the “Entire Premises”). The Entire Premises covered by the Del Mar Lease will serve as the Company’s new principal office.

The Del Mar Lease provides for a tenant improvement allowance of $125.00 per rentable square foot of the Entire Premises for a total of $12.0 million that the Landlord will use to fund the installation and/or construction of certain improvements to the Entire Premises in four phases, with each phase pertaining to a specified portion of the Entire Premises. The initial term of the Del Mar Lease is ten years and six months beginning on the earlier to occur of (i) January 1, 2023 and (ii) the date that Landlord tenders possession of the Phase III Premises (as defined in the Del Mar Lease) to the Company following the substantial completion of the improvements to the Phase III Premises required by the Del Mar Lease. The Company has the option to extend the term of the Del Mar Lease for two additional five-year periods, subject to the terms of the Del Mar Lease.

As the Landlord tenders possession of each portion of the Entire Premises for which the applicable improvements required by the Del Mar Lease are substantially complete, the Company will be obligated to make monthly payments of base rent with respect to such portion of the Entire Premises as set forth on Schedule 1 to the Del Mar Lease. In the event the Company exercises its option to extend the Del Mar Lease term, the Del Mar Lease provides for monthly rent payments during the additional five-year periods at the then-current market rent as determined in accordance with the Del Mar Lease. In addition to rent, the Del Mar Lease requires the Company to pay additional rent amounts for taxes, insurance, maintenance and other expenses.

During year ended December 31, 2021, the Company took initial possession of the first phase of its corporate headquarters, and the Company capitalized a ROU asset and related lease liability of $5.7 million associated with the first phase. During the three months ended March 31, 2022, the lease for the second phase of the Company’s corporate headquarters commenced and the Company capitalized a ROU asset and related lease liability of $15.8 million. The extension option periods were not considered in the determination of the ROU asset or the lease liability as the Company did not consider it reasonably certain that it would exercise such extension options.

Del Mar Lease Amendments

During April 2022, the Company amended the Del Mar Lease through the execution of the First Amendment to Office Lease (the "First Amendment") and the Second Amendment to Office Lease (the "Second Amendment") (collectively, the "Del Mar Lease Amendments"). Pursuant to the First Amendment to the Del Mar Lease, the Company elected to utilize a one-time increase in an additional improvement allowance of $25.00 per rentable square foot, which increased the tenant improvement allowance by $2.4 million to $14.4 million, provided under the Del Mar Lease to make certain improvements to the Entire Premises. As a result, the Company will pay an increased monthly base rent to the Landlord, in order to repay costs relating to the additional design and construction. Pursuant to the Second Amendment, the Company elected to expand the Entire Premises to include 14,085 rentable square feet comprising the executive parking level (the “Expansion Premises”), which increased the tenant improvement allowance by $2.1 million to $16.5 million. The Landlord will tender possession of the Expansion Premises following substantial completion of improvements, pursuant to an agreed upon work letter and will run contemporaneously with the term of the Existing Premises. The Company intends to use the additional space for general office and laboratory use. As the Landlord tenders possession of the Expansion Premises, the Company will be obligated to pay the Landlord increased monthly installments of base rent for the Expansion Premises. Upon inclusion of the Expansion Premises, the Company will lease approximately 110,082 rentable square feet rentable square feet from the Landlord.

The Del Mar Lease Amendments were negotiated with a single commercial objective and are treated as a combined contract for accounting purposes. The Company evaluated the Del Mar Lease Amendments under ASC 842 and concluded that the Del Mar Lease Amendments would be accounted for as a single contract with the Del Mar Lease because the additional lease payments related to the tenant improvement allowance due to the Del Mar Lease Amendments were not commensurate with ROU asset granted to the Company. Accordingly, the Company remeasured the lease liability using the additional monthly rent payments and the incremental borrowing rate at the effective date of the modification of 6.50%. The remeasurement for the modification resulted in an increase to the lease liability and the ROU asset of approximately $1.2 million.

The extension option periods were not considered in the determination of the ROU asset or the lease liability as the Company did not consider it reasonably certain that it would exercise such extension options. Pending execution of the Landlord's obligations to prepare leased spaces for occupancy, the Company expects the operating leases for the additional office and laboratory space to commence on various dates in the year ending December 31, 2022. The Company has an estimated future lease payment obligation of approximately $54.0 million related to corporate office facilities that were in the process of being constructed as of September 30, 2022. The lease liabilities and the corresponding ROU assets associated with these lease obligations will be recorded upon the commencement date of the operating leases using the Company’s incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term and at an amount equal to the lease payments in a similar economic environment. The Company calculates its incremental borrowing rates for specific lease terms, used to discount future lease payments, as a function of the U.S. Treasury rate and an indicative Moody’s rating for operating leases.

In connection with the original lease agreement, in lieu of a cash security deposit, the Company’s bank issued a letter of credit on its behalf, which is secured by a deposit, of $3.0 million and is included in restricted cash on the condensed consolidated balance sheet based on the term of the underlying lease. In April 2022, pursuant to the Second Amendment, the Company’s bank increased the letter of credit on its behalf by $0.5 million, totaling $3.5 million. As of September 30, 2022, none of the standby letter of credit amount has been used.

Torrey Pines Lease

In January 2013, DermTech Operations entered into a non-cancelable lease agreement for its operating facilities in Torrey Pines (the “Torrey Lease”). In January 2014, DermTech Operations signed an amendment to the Torrey Lease to extend the term through January 2017. In November 2016, DermTech Operations signed a second amendment to the Torrey Lease to extend the term through March 2022. In August 2019, DermTech Operations signed a third amendment to the Torrey Lease to add additional space, and in September 2019, the Company signed a fourth amendment to the Torrey Lease to add additional space. In February 2020, the Company signed a fifth amendment to the Torrey Lease to add additional space. In connection with the Business Combination, the Company assumed all obligations under the Torrey Lease, as amended, from DermTech Operations. As part of the fifth amendment, the Company was entitled to a tenant improvement allowance for certain costs incurred while performing these improvements in the amount of $0.3 million, which amount may be increased by up to $0.1 million at the Company’s election and subject to a corresponding increase in rent. Under the terms of the facilities leases, the Company is required to pay its proportionate share of property taxes, insurance and normal maintenance costs.

The lease term for all leased space has an expiration date of April 30, 2023, and an option to extend the lease term on all leased space for one additional three-year term, which the Company is not reasonably certain that it will exercise. As such, the Company did not include this option in the determination of the total lease term. On January 1, 2021, in conjunction with the adoption of the guidance in ASU 2016-02, the Company recognized a ROU asset and corresponding lease liability for its facility lease as the present value of lease payments not yet paid at January 1, 2021. The ROU asset and corresponding lease liability was estimated assuming the remaining lease term of 28 months at January 1, 2021, and an estimated discount rate of 4.04%, which was the Company’s incremental borrowing rate at the date of adopting ASC 842. The Company recorded a lease liability of $3.1 million and a ROU asset of $2.8 million, which is net of $0.3 million of the Company’s previously capitalized tenant improvement allowance and deferred rent, upon adoption.

The components of lease expense for the three and nine months ended September 30, 2022 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating lease cost				
Operating lease cost	$ 1,056	$ 379	$ 2,724	$ 1,023
Variable lease costs [1]	188	171	680	486
Total operating lease cost	$ 1,244	$ 550	$ 3,404	$ 1,509
Finance lease cost				
Amortization of leased assets	$ 21	$ 17	$ 62	$ 53
Interest on lease liabilities	3	5	10	13
Total finance lease cost	$ 24	$ 22	$ 72	$ 66

(1) Variable lease costs are primarily related to common area maintenance charges and property taxes.

Other information related to leases was as shown in the table below.

	Nine Months Ended September 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 3,621	$ 1,516
Operating cash flows from finance leases	$ 10	$ 13
Financing cash flows from finance leases	$ 104	$ 80
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 18,688	$ 9,071
Finance leases	$ 48	$ 105
Weighted average remaining lease term in years:		
Operating leases	10.01	9.33
Finance leases	2.37	2.67
Weighted average discount rate:		
Operating leases	6.44 %	5.78 %
Finance leases	5.81 %	5.76 %

The Company’s future minimum lease payments under operating and financing leases at September 30, 2022 are as follows (in thousands):

	2022	2023	2024	2025	2026	Thereafter	Total
Operating lease obligations, including interest	$ 791	$ 2,948	$ 2,774	$ 2,853	$ 2,934	$ 20,612	$ 32,912
Finance lease obligations, including interest	25	133	19	19	15	4	215
Total future minimum lease payments	$ 816	$ 3,081	$ 2,793	$ 2,872	$ 2,949	$ 20,616	$ 33,127

Amounts presented in the table above exclude non-cancelable future minimum lease payments for operating leases that have not commenced as of September 30, 2022.

Legal Proceedings

From time to time, the Company may be subject to legal proceedings and claims arising in the ordinary course of business. Management does not believe that the outcome of any of these matters will have a material effect on the Company’s consolidated financial position, results of operations or cash flows.

5. Related Party Transactions

During 2021 and 2022, the Company engaged EVERSANA Life Science Services, LLC ("EVERSANA") to provide certain marketing services to the Company. Leana Wood, the spouse of Todd Wood, the Company's Chief Commercial Offer, is an employee of EVERSANA. The Company incurred $1.1 million and $0.9 million in costs for the three months ended September 30, 2022 and 2021, respectively, and $2.8 million and $1.8 million for the nine months ended September 30, 2022 and 2021, respectively. Amount due to EVERSANA were $0.7 million and $0.6 million as of September 30, 2022 and December 31, 2021, respectively.

On October 1, 2019, the Company entered into a consulting agreement with Michael Dobak pursuant to which the Company will compensate Michael Dobak, in an amount not to exceed $100,000, for certain public relations and marketing services. On July 28, 2020, the Company and Michael Dobak entered into an amendment to such consulting agreement to modify the terms of Michael Dobak's compensation. The amended consulting agreement compensated Michael Dobak $15,000 per month from May 11, 2020 through September 30, 2021 and also granted him a restricted stock unit award that fully vested in a single installment on August 31, 2020 and represented the contingent right to receive 5,000 shares of common stock on January 2, 2021. On November 11, 2020, the Company and Michael Dobak entered into an amendment to such consulting agreement to extend the term through December 31, 2021 with a continued monthly payment of $15,000. On February 26, 2021, the Company and Michael Dobak agreed to extend his agreement through April 30, 2021 with a revised monthly payment of $20,000. Michael Dobak is the brother of Dr. John Dobak, the Company's Chief Executive Officer. The Company incurred zero costs for the three months ended September 30, 2022 and 2021, respectively, and zero and $0.1 million for the nine months ended September 30, 2022 and 2021.

There were no other related party transactions identified during the nine months ended September 30, 2022 and 2021.

6. Subsequent Events

The Company considered subsequent events through November 3, 2022, the date the condensed consolidated financial statements were available to be issued.

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

The following Discussion and Analysis of Financial Condition and Results of Operations of DermTech, Inc. (together with its subsidiaries, "DermTech," "we," "us," "our" or the "Company") should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and the audited condensed consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2021, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on March 10, 2022.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are intended to be covered by the "safe harbor" created by those sections. All statements, other than statements of historical facts, contained in this report, including statements regarding DermTech's or its management's intentions, beliefs, expectations and strategies for the future, are forward looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "expect," "plan," "anticipate," "believe," "estimate," "intend," "potential," "could," "would," or "continue" or the negative of these terms or other comparable terminology. Forward-looking statements are made as of the date of this report, deal with future events, are subject to various risks and uncertainties, and actual results could differ materially from those anticipated in those forward-looking statements. The risks and uncertainties that could cause actual results to differ materially are more fully described under the heading "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021. We may disclose changes to risk factors or additional risk factors from time to time in our future filings with the SEC. We assume no obligation to update any of the forward-looking statements after the date of this report or to conform these forward-looking statements to actual results.

Overview

We are a molecular diagnostic company developing and marketing novel non-invasive genomics tests to aid in the diagnosis and management of various skin conditions, including skin cancer and inflammatory diseases. Our technology provides a more accurate alternative to surgical biopsy, minimizing patient discomfort, scarring, and risk of infection, while maximizing convenience. Our scalable genomics assays are used to non-invasively collect a tissue sample for analysis.

We are initially commercializing tests that will address unmet needs in the diagnostic pathway of pigmented skin lesions, such as moles or dark colored skin spots. The DMT facilitates the clinical assessment of pigmented skin lesions for melanoma. We initially marketed this test directly to a concentrated group of dermatologists and are currently expanding marketing efforts to a broader group of clinicians and to a small group of primary care providers. The application of our Smart Sticker to collect samples non-invasively may allow us to eventually market the DMT to primary care physicians more broadly, beyond integrated primary care networks, and expand our efforts through telemedicine channels. We process our tests in our high complexity molecular laboratory that is certified under CLIA, College of American Pathologists accredited and New York licensed. We also provide laboratory services to several pharmaceutical companies that access our technology on a contract basis for their clinical trials or other studies to advance new drugs.

Events, Trends and Uncertainties

The DMT without the additional test for the presence of telomerase reverse transcriptase gene driver mutations ("TERT") (formerly known as PLA*plus*) became eligible for Medicare reimbursement on February 10, 2020. Each reference to the DMT in this paragraph refers only to the DMT without the add-on test for TERT. In late October 2019, the American Medical Association provided us with a PLA Code. Pricing of $760 for the PLA Code was published on December 24, 2019 as part of the Clinical Laboratory Fee Schedule for 2020. The final Local Coverage Determination, or LCD, expanded the coverage proposal in the draft LCD from one to two tests per date of service and it allows clinicians to order the DMT if they have sufficient skill and experience to decide whether a pigmented lesion should be biopsied. Our local Medicare Administrative Contractor, Noridian, has issued its own Local Coverage Decision, or Noridian's LCD, announcing coverage of the DMT. Even though the effective date of Noridian's LCD was June 7, 2020, Noridian began reimbursing us for the DMT as of February 10, 2020. With Medicare coverage granted, we have the opportunity to approach commercial payors, and as a result, we believe that the DMT may generate significant revenues in 2022 and 2023. No LCD currently covers the optional add-on test for TERT available to those ordering the DMT.

Despite the grant of Medicare coverage for the DMT (without the add-on test for TERT), uncertainty surrounds commercial payor reimbursement, including governmental and commercial payors, of any test incorporating new technology, including tests developed using our technologies. Because each payor generally determines for its own enrollees or insured patients whether to cover or otherwise establish a policy to reimburse our tests, seeking payor approvals is a time-consuming and costly process. We cannot be certain that coverage for our current tests and our planned future tests will be provided in the future by additional commercial payors or that existing policy decisions or reimbursement levels will remain in place or be fulfilled under existing terms and provisions. If we cannot obtain or maintain coverage and reimbursement from private and governmental payors such as Medicare and Medicaid for our current tests, or new tests or test enhancements that we may develop in the future, our ability to generate revenues could be limited. This may have a material adverse effect on our business, financial condition, results of operation, and cash flows.

Impacts of COVID-19 and Current Inflationary Environment

The ongoing COVID-19 pandemic has affected many segments of the global economy, including the cancer screening and diagnostics industry. The pandemic and related precautionary measures have significantly impacted, and may continue to impact, our workforce, supply chain, and operating results including our sample volumes, revenues, margins, and cash utilization, among other measures. The level and nature of the disruption caused by COVID-19 is unpredictable, may be cyclical, and long-lasting and may vary from location to location. Our business was negatively impacted by the pandemic but has in large part recovered. Future outbreaks of COVID-19 and its variants could diminish patients' and our sales representatives' access to healthcare provider offices. Pandemic-related supply chain disruptions, whether caused by restrictions or slowdowns in shipping or logistics, increases in demand for certain goods used in our operations, or otherwise, could impact our operations.

Global supply chain disruptions and the higher inflationary environment have resulted in higher prices, which could impact our liquidity, business, financial condition and results of operations.

Contract Revenue

Contract revenues with pharmaceutical companies relate to ongoing clinical trial contracts and new contracts. Contract revenue can be highly variable as it is dependent on the pharmaceutical customers' clinical trial progress which can be difficult to forecast due to variability of patient enrollment, drug safety and efficacy and other factors. Many of our historical contracts with third parties were structured to contain milestone billing payments, which typically are advance payments on work yet to be performed. These advanced payments are structured to help fund operations and are included in deferred revenue as the work has not yet been performed. These advance payments will remain in deferred revenue until we process the laboratory portion of the contracts allowing us to recognize the revenue.

Optional Add-on Test for TERT (formerly known as PLAplus)

During the second quarter of 2021, we announced the launch of the optional add-on test for TERT (then known as PLA*plus*) available to those ordering the DMT, which delivers objective and actionable information to guide clinical management decisions for skin lesions that may be melanoma. This add-on test combines TERT promoter DNA driver mutation analyses as a reflex test to the DMT's standard RNA gene expression test. TERT is individually associated with histopathologic features of aggressiveness and poor survival in melanoma. The combined tests elevate the sensitivity from 91% to 97% and maintain a negative predictive value of >99%, resulting in a less than 1% probability of missing melanoma. By combining RNA gene expression and DNA mutation analyses, the DMT provides a highly accurate non-invasive genomic test for enhanced early melanoma detection.

Financial Overview

Revenue

We generate revenue through laboratory services that are billed to Medicare, private medical insurance companies and to pharmaceutical companies who order our laboratory services, which can include sample collection kits, assay development, patient segmentation and stratification, genomic analysis, data analysis and reporting. Our revenue is generated from two revenue streams: assay revenue and contract revenue. Assay revenue can be highly variable as it is based on payments received by government and private insurance payors that are and are not under contract and can vary based on patient insurance coverage, deductibles and co-pays. As much of our assay revenue is driven by the samples that are sent by physicians to our central lab for testing, a key performance measure for us is samples that are received and processed by our central lab successfully, also known as billable samples. Our laboratory services are ordered by customers on projects that may span over several years, which makes our contract revenue highly variable. Segments of these contracts may be increased, delayed or eliminated based on the success of each customers' clinical trials or other factors.

Operating Expenses

Sales and Marketing Expenses

Sales and marketing expenses are primarily related to our specialty field sales force, market research, reimbursement efforts, conference attendance, public relations, advertising, and general marketing.

Research and Development Expenses

Our research and development ("R&D") expenses consist primarily of salaries and fringe benefits, clinical trials, consulting costs, facilities costs, laboratory costs, equipment expense, and depreciation. We also conduct clinical trials to validate the performance characteristics of our tests and to show medical cost benefit in support of our reimbursement efforts.

General and Administrative Expenses

Our general and administrative expenses consist of senior management compensation, consulting, legal, billing and collections, human resources, information technology, accounting, insurance, and general business expenses.

Financing Activities

2020 At-The-Market Offering

On November 10, 2020, the Company entered into a sales agreement with Cowen relating to the sale of shares of the Company's common stock from time to time with an aggregate offering price of up to $50.0 million. During 2021, the Company issued an aggregate of 530,551 shares of common stock pursuant to the sales agreement at a weighted average purchase price of $46.33 resulting in aggregate gross proceeds of approximately $24.6 million, reduced by $0.7 million in issuance costs, resulting in net proceeds to the Company of approximately $23.8 million. For the nine months ended September 30, 2022, the Company did not issue any shares pursuant to the November 2020 Sales Agreement.

2021 Underwritten Public Offering

On January 6, 2021, the Company, entered into an underwriting agreement with Cowen and William Blair & Company, L.L.C. as representatives of the several underwriters (the "Underwriters"). The Company agreed to issue and sell up to 4,237,288 shares of its common stock including up to 635,593 shares that could be purchased by the Underwriters pursuant to a 30-day option granted to the Underwriters by the Company.

On January 11, 2021, the Company closed the underwritten public offering of 4,872,881 shares of its common stock, which included the exercise in full by the Underwriters of their option to purchase up to 635,593 additional shares, at a price to the public of $29.50 per share. The Company's aggregate gross proceeds from the offering, before deducting underwriting discounts and commissions and other offering expenses, were $143.7 million.

2022 At-The-Market Offering

On August 8, 2022, the Company entered into a sales agreement with Cowen relating to the sale of shares of the Company's common stock from time to time with an aggregate offering price of up to $75.0 million. The Company did not issue or sell any shares of common stock pursuant to the sales agreement in the third quarter of 2022.

Results of Operations

Three Months Ended September 30, 2022 and September 30, 2021

Assay Revenue

Assay revenues grew $0.5 million, or 16%, to $3.4 million for the three months ended September 30, 2022 compared to $3.0 million for the three months ended September 30, 2021. Billable samples increased to approximately 18,080 for the three months ended September 30, 2022 compared to approximately 11,720 for the three months ended September 30, 2021. Sample volume is dependent on two major factors: the number of clinicians who order an assay in any given quarter and the number of assays ordered by each clinician during the period. The number of ordering clinicians and the utilization per clinician can vary based on a number of factors including patients presenting with skin cancer conditions, clinician reimbursement, office workflow, market awareness and clinician education.

Contract Revenue

Contract revenues with pharmaceutical companies increased $64,000, or 84%, to $140,000 for the three months ended September 30, 2022, compared to $76,000 for the three months ended September 30, 2021. Contract revenue can be highly variable as it is dependent on the pharmaceutical customers' clinical trial progress, which can be difficult to forecast due to variability of patient enrollment, drug safety and efficacy and other factors.

Cost of Revenue

Cost of revenues increased $0.8 million, or 27%, to $3.7 million for the three months ended September 30, 2022 compared to $2.9 million for the three months ended September 30, 2021. The increase was largely attributable to a higher billable sample volume in 2022, and higher overhead costs, partially offset by streamlined laboratory processes. As of September 30, 2022, a large portion of the costs of revenue are fixed, and these costs include the CLIA facility, quality assurance, management and supervision and equipment calibration and depreciation. The variable cost of revenue expenses incurred primarily relate to compensation-related costs for our laboratory scientists and technicians, laboratory supplies, shipping costs and Smart Sticker collection kits. We remain committed to continuing the automation of our laboratory processes in order to become more cost efficient and productive.

Operating Expenses

Sales and Marketing

Sales and marketing expenses increased $4.8 million, or 49%, to $14.6 million for the three months ended September 30, 2022 compared to $9.8 million for the three months ended September 30, 2021. The increase was primarily attributable to higher compensation-related costs from the expansion of the commercial team, increased spending on marketing and payor infrastructure and activities, and travel expenses.

Research and Development

R&D expenses increased $1.3 million, or 29%, to $5.7 million for the three months ended September 30, 2022 compared to $4.4 million for the three months ended September 30, 2021. The increase was due to higher compensation costs of expanding the R&D team, including the addition of some senior leadership and increased travel and overhead costs.

General and Administrative

General and administrative expenses increased $2.6 million, or 42%, to $8.8 million for the three months ended September 30, 2022 compared to $6.2 million for the three months ended September 30, 2021. The increase was primarily due to higher payroll-related costs and stock-based compensation as we continue to add infrastructure such as human resources, billing, information technology and legal resources, and higher consulting expenses, and overhead.

Interest Income, net

Interest income, net of $0.5 million and $38,000 for the three months ended September 30, 2022 and 2021, respectively, consists primarily of interest earned on our short-term marketable securities.

Change in Fair Value of Warrant Liability

Change in fair value of warrant liability for the three months ended September 30, 2022 was a gain of $4,000 compared to a gain of $0.2 million for the three months ended September 30, 2021. The change in fair value of warrant liability is calculated by adjusting the value of the outstanding Private SPAC Warrants held by original holders to the current market value at each reporting period.

Nine Months Ended September 30, 2022 and September 30, 2021

Assay Revenue

Assay revenues increased $3.0 million, or 38%, to $11.1 million for the nine months ended September 30, 2022 compared to $8.1 million for the nine months ended September 30, 2021. Billable samples increased to approximately 50,770 for the nine months ended September 30, 2022 compared to approximately 32,840 for the nine months ended September 30, 2021. The increase in assay revenue was primarily due to higher billable sample volume.

Contract Revenue

Contract revenues with pharmaceutical companies decreased $0.2 million, or 31%, to $0.4 million for the nine months ended September 30, 2022, compared to $0.6 million for the nine months ended September 30, 2021. Contract revenue can be highly variable as it is dependent on the pharmaceutical customers' clinical trial progress, which can change due to variability of patient enrollment, drug safety and efficacy and other factors.

Cost of Revenue

Cost of revenues increased $3.0 million, or 40%, to $10.5 million for the nine months ended September 30, 2022 compared to $7.5 million for the nine months ended September 30, 2021. The increase was largely attributable to a higher billable sample volume in 2022, and overhead costs, partially offset by streamlined laboratory processes. As of September 30, 2022, a large portion of the costs of revenue are fixed, and these costs include the CLIA facility, quality assurance, management and supervision and equipment calibration and depreciation. The variable cost of revenue expenses incurred primarily relate to compensation-related costs for our laboratory scientists and technicians, laboratory supplies, shipping costs, equipment maintenance, and utilities. We remain committed to continuing the automation of our laboratory processes in order to become more cost efficient and productive.

Operating Expenses

Sales and Marketing

Sales and marketing expenses increased $20.8 million, or 86%, to $45.1 million for the nine months ended September 30, 2022 compared to $24.2 million for the nine months ended September 30, 2021. The increase was primarily attributable to higher compensation-related costs from the expansion of the commercial team, increased spending on marketing and payor infrastructure and activities, and additional software, conference and travel expenses.

Research and Development

R&D expenses increased $8.7 million, or 85%, to $19.0 million for the nine months ended September 30, 2022 compared to $10.3 million for the nine months ended September 30, 2021 The increase was due to higher compensation costs of expanding the R&D team, including the addition of some senior leadership, increased clinical trial costs and increased spending on laboratory supplies to support new product development.

General and Administrative

General and administrative expenses increased $8.6 million, or 49%, to $26.3 million for the nine months ended September 30, 2022 compared to $17.7 million for the nine months ended September 30, 2021. The increase was primarily due to higher payroll-related costs and stock-based compensation as we continue to add additional infrastructure such as human resources, billing, information technology and legal resources, and higher consulting expenses, insurance and overhead costs.

Interest Income, net

Interest income, net of $0.7 million and $0.1 million for the nine months ended September 30, 2022 and 2021, respectively, consists primarily of interest earned on our short-term marketable securities.

Change in Fair Value of Warrant Liability

Change in fair value of warrant liability for the nine months ended September 30, 2022 was a gain of $0.1 million compared to a loss of $1.4 million for the nine months ended September 30, 2021. The change in fair value of warrant liability is calculated by adjusting the value of the outstanding Private SPAC Warrants held by original holders to the current market value at each reporting period.

Liquidity and Capital Resources

We have never been profitable and have historically incurred substantial net losses, including net losses of $36.5 million for the twelve months ended December 31, 2020, $78.3 million for the twelve months ended December 31, 2021 and $88.5 million for the nine months ended September 30, 2022. As of September 30, 2022, our accumulated deficit was $294.8 million. For the nine months ended September 30, 2022, we had negative operating cash flow of $74.0 million. At the end of 2020 and throughout 2021, we raised approximately $44.5 million in gross proceeds facilitated through our at-the-market offering. In addition, we completed the 2021 Underwritten Public Offering in January 2021, which raised a total of $143.7 million in gross proceeds. We have historically financed operations through private placement and public equity offerings.

We expect our losses to continue as a result of costs relating to ongoing R&D expenses, general and administrative expenses and sales and marketing costs for existing and planned products. These losses have had, and will continue to have, an adverse effect on our working capital. Because of the numerous risks and uncertainties associated with our commercialization and development efforts, we are unable to predict when we will become profitable, and we may never become profitable. Our inability to achieve and then maintain profitability would negatively affect our business, financial condition, results of operations and cash flows.

As of September 30, 2022, our cash and cash equivalents totaled approximately $95.5 million and short-term marketable securities totaled approximately $53.6 million. Based on our current business operations, we believe our current cash, cash equivalents and short-term marketable securities will be sufficient to meet our anticipated cash requirements for at least the next 12 months. While we believe we have enough capital to fund anticipated operating costs for at least the next 12 months, we expect to incur significant additional operating losses over at least the next several years. We anticipate that we will raise additional capital through equity offerings, debt financings, collaborations or licensing arrangements in order to support our planned operations and to continue developing and commercializing genomic tests. We may also consider raising additional capital in the future to expand our business, to pursue strategic investments or to take advantage of financing opportunities. Our present and future funding requirements will depend on many factors, including:

- our revenue growth rate and ability to generate cash flows from operating activities;
- the willingness of clinicians and their patients to use our telemedicine option for the DMT and the duration and extent of the effects of the ongoing COVID-19 pandemic in reducing patient access to clinician offices for in-person testing and access by our sales force for in-office sales calls;
- the duration and extent of the effects of the ongoing COVID-19 pandemic on our pharmaceutical customers' clinical trials;
- our sales and marketing and R&D activities;
- effects of competing technological and market developments;
- costs of and potential delays in product development;
- changes in regulatory oversight applicable to our tests; and
- timing of and costs related to future international expansion.

There can be no assurances as to the availability of additional financing or the terms upon which additional financing may be available to us. If we are unable to obtain sufficient funding at acceptable terms, we may be forced to significantly curtail our operations, and the lack of sufficient funding may have a material adverse impact on our ability to continue as a going concern.

Cash Flow Analysis

Nine Months Ended September 30, 2022

Net cash used in operating activities for the nine months ended September 30, 2022 totaled $74.0 million, primarily driven by the $88.5 million net loss offset partially by non-cash related items, including $13.7 million in stock-based compensation, $1.8 million in amortization of operating lease ROU assets, $1.2 million in depreciation and $0.3 million in amortization of premiums, net of accretion of discounts on marketable securities. In addition, we had a net cash outflow of $2.8 million through net changes in working capital balances driven primarily by cash outflows of $2.3 million due to increase in accounts receivable, $1.0 million through the increase of prepaid expenses and other current assets and $2.7 million through the decrease of operating lease liabilities, partially offset by cash inflows of $3.2 million from the increase in accrued compensation.

Net cash used in investing activities for the nine months ended September 30, 2022 totaled $7.9 million, which related to the outflow from the purchase of $26.4 million of marketable securities and $1.4 million from the purchase of equipment offset by the inflow from the maturity of marketable securities of $19.9 million. Additional laboratory equipment investment will be needed to install complex automation systems and other genomic testing equipment needed to expand testing capacity.

Net cash provided by financing activities for the nine months ended September 30, 2022 totaled $1.0 million, which was driven primarily by $1.0 million in proceeds from contributions to the employee stock purchase plan.

Off-Balance Sheet Arrangements

As of September 30, 2022, we did not have any off-balance sheet arrangements, as such term is defined under Item 303 of Regulation S-K, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Critical Accounting Policies and Significant Judgments and Estimates

Critical accounting policies, significant judgments, and estimates are those that we believe are most important for the portrayal of the Company's financial condition and results, and that require management's most subjective and complex judgments. Judgments and uncertainties regarding the application of these policies may result in materially different amounts being reported under various conditions or using different assumptions. There have been no material changes to the critical accounting estimates previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, and disclosed in Note 1(g) of the condensed consolidated financial statements herein.

Recent Accounting Pronouncements

See Item 1 of Part I, Note 1(k) of the condensed consolidated financial statements herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our cash, cash equivalents, and short-term marketable securities are subject to economic risk which could affect our results of operations, financial condition and cash flows. We manage our exposure to this market risk through our regular operating and financing activities.

Interest Rate Risk

The primary objective of our investment activities is capital preservation to fund operations, while at the same time maximizing investment income without significantly increasing investment risk. To achieve these objectives, our investment policy allows for a portfolio of cash equivalents and investments in a variety of securities, including money market funds, U.S. government debt and corporate debt securities. Due to the short-term and conservative nature of our investments, we do not believe that we have a material exposure to interest rate risk. A 100 basis point change in interest rates would not have a significant impact on the total value of our portfolio.

Item 4. Controls and Procedures.

Disclosure controls and procedures enable us to record, process, summarize and report information required to be included in our Exchange Act filings within the required time period. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the periodic reports filed with the Securities and Exchange Commission is accumulated and communicated to our management, including our principal executive, financial and accounting officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based upon that evaluation, our principal executive officer and our principal financial officer concluded that, as of December 31, 2021, the Company's disclosure controls and procedures were not effective, due to the material weakness in our internal control over financial reporting discussed in Part I, Item 9A—Controls and Procedures in our Annual Report on Form 10-K for the year ended December 31, 2021.

Material Weakness in Internal Control Over Financial Reporting

A material weakness in internal control over financial reporting is a deficiency, or combination of deficiencies such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. As the Company could not conclude that controls over the completeness, existence and accuracy of assay revenue and accounts receivable were designed and operating effectively as of December 31, 2021, the Company identified a material weakness in its controls over the financial reporting related to our assay revenue and accounts receivable process. Management identified the need to enhance our risk assessment process, enhance communications with our third-party service organization, and reassess the assay revenue and accounts receivable process to ensure appropriate design and operating effectiveness of controls.

Plan of Remediation of Material Weakness

To remediate these material weaknesses in our internal control over financial reporting related to assay revenue and accounts receivable described in Part I, Item 9A—Controls and Procedures in our Annual Report on Form 10-K for the year ended December 31, 2021, we plan to implement or improve documentation of alternative internal control procedures to verify the completeness and accuracy of customer contracts received and the delivery of test results. The material weakness cannot be considered remediated until the controls operate for a sufficient period and management has concluded, through testing, that our internal controls are operating effectively.

Other than the changes made in remediating the material weakness described above, there has been no change in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2022 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

After giving full consideration to the material weakness referenced above, and the additional analyses and other procedures that we performed to ensure that our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were prepared in accordance with U.S. GAAP, our management has concluded that our condensed consolidated financial statements present fairly, in all material respects, our financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. GAAP.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are not currently a party to any material legal proceedings.

Item 1A. Risk Factors.

There have not been any material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 6. Exhibits.

The following documents are filed as part of this Form 10-Q.

Exhibit No.	Description	Filed Herewith	Form	Incorporated by Reference File No.	Date Filed
10.1	Sales Agreement, dated August 8, 2022, by and between the Company and Cowen		S-3	333-266650	8/8/2022
10.2*	DermTech, Inc. Amended and Restated 2022 Inducement Equity Incentive Plan		S-8	333-267469	9/16/2022
10.3*	DermTech, Inc. Amended and Restated 2020 Employee Stock Purchase Plan	X			
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
32.1**	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS	Inline XBRL Instance Document	X			
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X			
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 has been formatted in Inline XBRL.	X			

*Management contract or compensatory plan or arrangement

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

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.

DermTech, Inc.

Date: November 3, 2022 By: /s/ John Dobak

John Dobak, M.D.
Chief Executive Officer
(Principal Executive Officer)

Date: November 3, 2022 By: /s/ Kevin Sun

Kevin Sun
Chief Financial Officer
(Principal Financial and Accounting Officer)

DermTech, Inc.

AMENDED AND RESTATED EMPLOYEE STOCK PURCHASE PLAN

(As amended August 9, 2022)

The following constitute the provisions of the 2020 Employee Stock Purchase Plan (the "Plan") of DermTech, Inc. (the "Company").

1. Purpose. The purpose of the Plan is to provide Employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company. It is the intention of the Company to have the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code.

2. Definitions.

(a) "Board" shall mean the Board of Directors of the Company, or a committee of the Board of Directors named by the Board to administer the Plan.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended, including any successor statute, regulation and guidance thereto.

(c) "Common Stock" shall mean the common stock, $0.0001 par value per share, of the Company.

(d) "Company" shall mean DermTech, Inc., a Delaware corporation.

(e) "Compensation" shall mean the regular rate of salary or wages received by the Employee from the Company or a Designated Subsidiary that is taxable income for federal income tax purposes, including payments for overtime and shift premium, incentive compensation, incentive payments, bonuses and commissions, but excluding relocation, expense reimbursements, tuition or other reimbursements, other non-cash W-2 compensation (i.e. disqualifying dispositions, equity grants, equity exercises or settlements), or compensation received from the Company or a Designated Subsidiary. For purposes of determining a participant’s Compensation, any election by such participant to reduce his or her regular cash remuneration under Sections 125 (i.e. pre-tax cafeteria plan contributions) or 401(k) (i.e. pre-tax retirement contributions) of the Code (or in foreign jurisdictions, equivalent salary deductions) shall be treated as if the participant did not make such election and as if such reductions were not made. In other words ESPP Contributions are calculated on pre-tax Compensation but are withheld on a post-tax basis. Pre-tax contributions, including but not limited to those under Section 125 and 401(k), are withheld first, and ESPP Contributions are withheld only if the remaining post-tax Compensation can satisfy the elected ESPP Contribution percentage.

(f) "Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than ninety (90) days or reemployment upon the expiration of such leave is guaranteed by contract or statute.

(g) "Contributions" shall mean all amounts credited to the account of a participant pursuant to the Plan.

(h) "Designated Subsidiaries" shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(i) "Employee" shall mean any person who is employed by the Company or one of its Designated Subsidiaries for tax purposes and who is customarily employed for at least twenty (20) hours per week and more than five (5) months in a calendar year by the Company or one of its Designated Subsidiaries.

(j) "Exercise Date" shall mean the last business day of each Offering Period or Purchase Period of the Plan.

(k) "Exercise Price" shall mean with respect to an Offering Period, an amount equal to 85% of the fair market value (as defined in Paragraph 7(b)) of a share of Common Stock on the Offering Date or on the Exercise Date, whichever is lower.

(l) "Offering Date" shall mean the first business day of each Offering Period of the Plan.

(m) "Offering Period" shall me an each twenty-four (24) month period commencing on each September 1 and March 1 to occur during the term of the Plan (or other such period or periods as determined by the Board in accordance with this Plan) with respect to which the right to purchase Common Stock may be granted under the Plan.

(n) "Plan" shall mean this DermTech, Inc. Employee Stock Purchase Plan.

(o) "Purchase Period" shall mean one or more periods within an Offering Period during which contributions may be made toward the purchase of Common Stock under the Plan, as determined by the Board. The Board shall have the power to change the duration of Purchase Periods.

(p) "Subsidiary" shall mean a corporation, domestic or foreign, of which not less than 50% of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. Eligibility.

(a) Any person who has been continuously employed as an Employee for 1 month as of the Offering Date of a given Offering Period shall be eligible to participate in such Offering Period under the Plan and further, subject to the requirements of Paragraph 5(a) and the limitations imposed by Section 423(b) of the Code. All Employees granted options under the Plan with respect to any Offering Period will have the same rights and privileges except for any differences that may be permitted pursuant to Section 423 of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary of the Company.

(c) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option to purchase Common Stock under the Plan with a fair market value as defined in Paragraph 7(b)

(determined at the time such option is granted) in excess of the following limit, which shall be applied in accordance with Section 423(b)(8) of the Code:

(i) In the case of Common Stock purchased during an Offering Period that commenced in the current calendar year, the limit shall be equal to (A) $25,000 *minus* (B) the Offering Date fair market value of the Common Stock that the Employee previously purchased in the current calendar year under this Plan and all other employee stock purchase plans (described in Section 423 of the Code) of the Company or any parent or Subsidiary of the Company;

(ii) In the case of Common Stock purchased during an Offering Period that commenced in the immediately preceding calendar year, the limit shall be equal to (A) $50,000 *minus* (B) the Offering Date fair market value of the Common Stock that the Employee previously purchased under this Plan and all other employee stock purchase plans (described in Section 423 of the Code) of the Company or any parent or Subsidiary of the Company in the current calendar year and in the immediately preceding calendar year;

(iii) In the case of Common Stock purchased during an Offering Period that commenced two calendar years prior, the limit shall be equal to (A) $75,000 *minus* (B) the Offering Date fair market value of the Common Stock that the Employee previously purchased under this Plan and all other employee stock purchase plans (described in Section 423 of the Code) of the Company or any parent or Subsidiary of the Company in the current calendar year and in the two immediately preceding calendar years.

(d) An Employee shall not be permitted to purchase more than 2,500 shares of Common Stock on an Exercise Date. The Board may, in its sole discretion, set a new maximum number of shares that may be purchased by any participant on an Exercise Date. If a lower limit is set under this Paragraph 3(d), the Board shall notify participants of such limit prior to the commencement of the next Purchase Period for which it is to be effective.

(e) If the number of shares to be purchased on an Exercise Date by all Employees participating in this Plan exceeds the number of shares then available for issuance under this Plan, then the Company will make a pro rata allocation of the remaining shares in as uniform a manner as shall be reasonably practicable and as the Board shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares to be purchased under a participant's option to each participant affected.

(f) Any payroll deductions accumulated in an Employee's account which are not used to purchase Common Stock due to the limitations in this Paragraph 3 shall be returned to the participant as soon as practicable after the end of the applicable Purchase Period, without interest (except to the extent required due to local legal requirements outside the United States).

(g) If a participant is precluded by the limitations of this Paragraph 3 from purchasing additional Common Stock under the Plan, then his or her employee contributions may be automatically discontinued by the Company and shall automatically resume at the beginning of the earliest Purchase Period that will end in the next calendar year (if he or she then is an eligible Employee), provided that when the Company automatically resumes such payroll deductions, the Company must apply the rate in effect immediately prior to such suspension.

(h) Any option granted under the Plan shall be deemed to be modified to the extent necessary to satisfy this Paragraph 3.

4. Offering Periods.

(a) The Plan shall be implemented by a series of Offering Periods, with a new Offering Period commencing on September 1 and March 1 of each year or the first business day thereafter (or at such other time or times as may be determined by the Board). Each Offering Period shall consist of four (4) six-month Purchase Periods commencing on each September 1 and March 1 to occur during the Offering Period or the first business day thereafter and ending February 28 (or the 29th if February has 29 days) and August 31 of each year (or commencing and ending at other such time or times as may be determined by the Board), during which payroll deductions of the participants are accumulated under this Plan. The Board shall have the power to change the Offering Dates, the Exercise Dates, and the duration of Offering Periods (provided that an Offering Period will in no event be longer than twenty-seven (27) months) or Purchase Periods without stockholder approval if such change is announced prior to the relevant Offering Period or prior to such other time period as specified by the Board. The initial Offering Period shall commence on September 1, 2020.

(b) If the fair market value of a share of Common Stock on any Exercise Date that occurs during an Offering Period is less than the fair market value of a share of Common Stock on the Offering Date of the applicable Offering Period, then such Offering Period shall automatically terminate immediately after the purchase of shares of Common Stock on such Exercise Date and a new subsequent Offering Period shall commence on the September 1 or March 1 next following such Exercise Date (or the first business day thereafter or such other time as may be determined by the Board) (an “Automatic Reset”).

5. Participation.

(a) An eligible Employee may become a participant in the Plan by completing an Enrollment Form provided by the Company and filing it with the Company or its designee at least seven (7) days prior to the applicable Offering Date, unless a later time for filing the Enrollment Form is set by the Board for all eligible Employees with respect to a given Offering Period and provided, however, that upon the termination of an Offering Period as a result of an Automatic Reset, each participant in such Offering Period shall automatically participate in the immediately following Offering Period on the same terms on which the participant participated in the terminated Offering Period pursuant to the participant’s existing Enrollment Form (as may be subsequently modified or revoked in accordance with the Plan). The Enrollment Form and its submission may be electronic as directed by the Company. The Enrollment Form shall set forth the percentage of the participant's Compensation (which shall be not less than one percent (1%) and not more than fifteen percent (15%), in increments not less than one percent (1%), to be paid as Contributions pursuant to the Plan.

(b) Payroll deductions shall commence with the first payroll or as soon as practicable following the Offering Date, unless a later time is set by the Board with respect to a given Offering Period, and shall end on the last payroll paid on or prior to the Exercise Date of the Offering Period to which the Enrollment Form is applicable, unless sooner terminated as provided in Paragraph 10.

6. Method of Payment of Contributions.

(a) Each participant shall elect to have payroll deductions made on each payroll during the Offering Period in an amount not less than one percent (1%) and not more than fifteen percent (15%), in increments not less than one percent (1%), of such participant's Compensation on each such payroll (or such other percentage as the Board may establish from time to time before an Offering Date). All payroll

deductions made by a participant shall be credited to his or her account under the Plan. A participant may not make any additional payments into such account.

(b) A participant may discontinue his or her participation in the Plan as provided in Paragraph 10, or, on one occasion only during the Purchase Period, may decrease, but may not increase, the rate of his or her Contributions during the Offering Period by completing and filing with the Company a new Enrollment Form authorizing a change in the deduction rate. The change in rate shall be effective as of the beginning of the next payroll period or as soon as practicable following the date of filing of the new Enrollment Form, if the Enrollment Form is submitted at least seven (7) days prior to such date, and, if not, as of the beginning of the next succeeding payroll period. A reduction of the payroll deduction percentage to zero shall be treated as participant's withdrawal from such Offering Period and the Plan, effective as of the day after the next Purchase Date following the filing date of such request with the Company.

(c) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Paragraph 3, a participant's payroll deductions may be suspended at any time during any Offering Period.

7. Grant of Option.

(a) On the Offering Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase on each Exercise Date of such Offering Period a number of shares of the Common Stock determined by dividing such Employee's Contributions accumulated prior to such Exercise Date and retained in the participant's account as of the Exercise Date by the applicable Exercise Price; provided however, that such purchase shall be subject to the limitations set forth in Paragraphs 3 and 12. The fair market value of a share of the Common Stock shall be determined as provided in Paragraph 7(b).

(b) The fair market value of the Common Stock on a given date shall be (i) if the Common Stock is listed on a national securities exchange or traded in the over-the-counter market and sales prices are regularly reported for the Common Stock, the closing or last sale price of the Common Stock for such date (or, in the event that the Common Stock is not traded on such date, on the immediately preceding trading date), on the composite tape or other comparable reporting system; or (ii) if the Common Stock is not listed on a national securities exchange and such price is not regularly reported, the mean between the bid and asked prices per share of the Common Stock at the close of trading in the over-the-counter market.

8. Exercise of Option. Unless a participant withdraws from the Plan as provided in Paragraph 10, his or her option for the purchase of shares will be exercised automatically on each Exercise Date, and the maximum number of full shares subject to the option will be purchased for him or her at the applicable Exercise Price with the accumulated Contributions in his or her account. If a fractional number of shares results, then such number shall be rounded down to the next whole number and any unapplied cash shall be carried forward to the next Exercise Date, unless the participant requests a cash payment. The shares purchased upon exercise of an option hereunder shall be deemed to be transferred to the participant on the Exercise Date. During a participant's lifetime, a participant's option to purchase shares hereunder is exercisable only by him or her.

9. Delivery. Upon the written request of a participant, certificates representing the shares purchased upon exercise of an option will be issued as promptly as practicable after the applicable Exercise Date to participants who wish to hold their shares in certificate form, except that the Board may determine that such shares shall be held for each participant's benefit by a broker designated by the Board. Any payroll deductions accumulated in a participant's account which are not sufficient to purchase a full

Share shall be retained in the participant’s account for the subsequent Offering Period, subject to earlier withdrawal by the participant as provided in Paragraph 10 below. Any other amounts left over in a participant’s account after an Exercise Date shall be returned to the participant.

10. Withdrawal; Termination of Employment.

(a) A participant may withdraw all but not less than all the Contributions credited to his or her account under the Plan at any time prior to an Exercise Date by giving written notice, or electronic submission of withdrawal, to the Company or its designee no later than 3 business days prior to each Exercise Date. All of the participant's Contributions credited to his or her account will be paid to him or her promptly after receipt of his or her notice of withdrawal and his or her option for the current period will be automatically terminated, and no further Contributions for the purchase of shares will be made during the Offering Period.

(b) Upon termination of the participant's Continuous Status as an Employee prior to an Exercise Date for any reason, including retirement or death, the Contributions credited to his or her account will be returned to him or her or, in the case of his or her death, to the person or persons entitled thereto under Paragraph 14, and his or her option will be automatically terminated.

(c) In the event an Employee fails to remain in Continuous Status as an Employee for at least 20 hours per week during the Offering Period in which the Employee is a participant, he or she will be deemed to have elected to withdraw from the Plan and the Contributions credited to his or her account will be returned to him or her and his or her option terminated.

(d) A participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in a succeeding offering or in any similar plan which may hereafter be adopted by the Company.

11. Interest. No interest shall accrue on the Contributions of a participant in the Plan.

12. Stock.

(a) The maximum number of shares of Common Stock which shall be made available for sale under the Plan shall be 400,000 shares, plus an annual increase on the first day of each of the Company’s fiscal years beginning in 2021 and ending on the first day of 2030, equal to the lesser of (i) 300,000 shares, (ii) one percent (1%) of the shares of Common Stock outstanding on the last day of the immediately preceding fiscal year, or (iii) such lesser number of shares as is determined by the Board, subject to adjustment upon changes in capitalization of the Company as provided in Paragraph 18. If the total number of shares which would otherwise be subject to options granted pursuant to Paragraph 7(a) on the Offering Date of an Offering Period exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised), the Company shall make a pro rata allocation of the shares remaining available for option grants in as uniform a manner as shall be practicable and as it shall determine to be equitable. Any amounts remaining in an Employee's account not applied to the purchase of shares pursuant to this Paragraph 12 shall be refunded on or promptly after the Exercise Date. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of Contributions, if necessary.

(b) The participant will have no interest or voting right in shares covered by his or her option until such option has been exercised.

13. Administration. The Board shall supervise and administer the Plan and shall have full power to adopt, amend and rescind any rules deemed desirable and appropriate for the administration of the Plan and not inconsistent with the Plan, to construe and interpret the Plan, to correct any defect or supply any omission or reconcile any inconsistency or ambiguity in the Plan and to make all other determinations necessary or advisable for the administration of the Plan, including without limitation, adopting subplans applicable to particular Designated Subsidiaries or locations, which subplans may be designed to be outside the scope of Section 423 of the Code.

14. Designation of Beneficiary.

(a) A participant may designate a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of the Purchase Period but prior to delivery to him or her of such shares and cash. In addition, a participant may designate a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to each Exercise Date of the Offering Period. If a participant is married and the designated beneficiary is not the spouse, spousal consent shall be required for such designation to be effective. Beneficiary designations shall be made either in writing or by electronic delivery as directed by the Company.

(b) Such designation of beneficiary may be changed by the participant (and his or her spouse, if any) at any time by submission of the required notice, which may be electronic. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. Transferability. Neither Contributions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Paragraph 14) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Paragraph 10.

16. Use of Funds. All Contributions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such Contributions.

17. Reports. Individual accounts will be maintained for each participant in the Plan. Statements of account will be provided to participating Employees promptly following the Exercise Date, which statements will set forth the amounts of Contributions, the per share purchase price, the number of shares purchased and the remaining cash balance, if any.

18. Adjustments upon Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by unexercised options under the Plan, the number of shares of Common Stock which have been authorized for issuance under the Plan but are not yet subject to options under Paragraph 12(a) and the number of shares of Common Stock subject to annual increase under Paragraph 12(a) (collectively, the "Reserves"), the maximum number of shares of Common Stock that may be purchased by a participant in an Offering Period set forth in Paragraph 3 as well as the price per share of Common Stock covered by each unexercised option under the Plan, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock. Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

In the event of the proposed dissolution or liquidation of the Company, an Offering Period then in progress will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger, consolidation or other capital reorganization of the Company with or into another corporation, each option outstanding under the Plan shall be assumed or an equivalent option shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation, unless the Board determines, in the exercise of its sole discretion and in lieu of such assumption or substitution, to shorten the Offering Period then in progress by setting a new Exercise Date (the "New Exercise Date"). If the Board shortens the Offering Period then in progress in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify each participant in writing, at least ten days prior to the New Exercise Date, that the Exercise Date for his or her option has been changed to the New Exercise Date and that his or her option will be exercised automatically on the New Exercise Date, unless prior to such date he or she has withdrawn from the Offering Period as provided in Paragraph 10. For purposes of this paragraph, an option granted under the Plan shall be deemed to be assumed if, following the sale of assets, merger or other reorganization, the option confers the right to purchase, for each share of Common Stock subject to the option immediately prior to the sale of assets, merger or other reorganization, the consideration (whether stock, cash or other securities or property) received in the sale of assets, merger or other reorganization by holders of Common Stock for each share of Common Stock held on the effective date of such transaction (and if such holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Common Stock); provided, however, that if such consideration received in such transaction was not solely common stock of the successor corporation or its parent (as defined in Section 424(e) of the Code), the Board may, with the consent of the successor corporation, provide for the consideration to be received upon exercise of the option to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Stock in the sale of assets, merger or other reorganization.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, in the event that the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or reductions of shares of its outstanding Common Stock, and in the event of the Company being consolidated with or merged into any other corporation.

19. Amendment or Termination.

(a) The Board may at any time terminate or amend the Plan. Except as provided in Paragraph 18, no such termination may affect options previously granted, nor may an amendment make any change in any option theretofore granted which adversely affects the rights of any participant provided that an Offering Period may be terminated by the Board on an Exercise Date or by the Board's setting a new Exercise Date with respect to an Offering Period then in progress if the Board determines that termination of the Offering Period is in the best interests of the Company and the stockholders or if continuation of the Offering Period would cause the Company to incur adverse accounting charges in the generally-accepted accounting rules applicable to the Plan. In addition, to the extent necessary to comply with Section 423 of the Code (or any successor rule or provision or any applicable law or regulation), the Company shall obtain stockholder approval in such a manner and to such a degree as so required.

(b) Without stockholder consent and without regard to whether any participant rights may be considered to have been adversely affected, the Board shall be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each participant properly correspond with amounts withheld from the participant's Compensation, and establish such other limitations or procedures as the Board determines in its sole discretion advisable that are consistent with the Plan.

20. Notices. All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions upon Issuance of Shares. Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

22. Information Regarding Disqualifying Dispositions. By electing to participate in the Plan, each participant agrees to provide any information about any transfer of shares of Common Stock acquired under the Plan that occurs within two years after the first business day of the Offering Period in which such shares were acquired as may be requested by the Company or any Subsidiaries in order to assist it in complying with the tax laws.

23. Right to Terminate Employment. Nothing in the Plan or in any agreement entered into pursuant to the Plan shall confer upon any Employee the right to continue in the employment of the Company or any Subsidiary, or affect any right which the Company or any Subsidiary may have to terminate the employment of such Employee.

24. Rights as a Stockholder. Neither the granting of an option nor a deduction from payroll shall constitute an Employee the owner of shares covered by an option. No Employee shall have any right as a stockholder unless and until an option has been exercised, and the shares underlying the option have been registered in the Company's share register.

25. Term of Plan. The Plan became effective upon its approval on May 26, 2020 and shall continue in effect through the tenth anniversary of such date, unless sooner terminated under Paragraph 19.

26. Applicable Law. This Plan shall be governed in accordance with the laws of the State of Delaware, applied without giving effect to any conflict-of-law principles.

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Dobak, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 of DermTech, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

By: /s/ John Dobak
John Dobak
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin Sun, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 of DermTech, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

By: /s/ Kevin Sun
Kevin Sun
Chief Financial Officer
(principal financial and accounting officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 of DermTech, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies in his capacity as the specified officer of the Company, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 3, 2022 By: /s/ John Dobak
John Dobak
Chief Executive Officer
(principal executive officer)

Date: November 3, 2022 By: /s/ Kevin Sun
Kevin Sun
Chief Financial Officer
(principal financial and accounting officer)

This certification accompanies the Quarterly Report on Form 10-Q to which it relates and shall not be deemed filed with the Securities and Exchange Commission or incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.